Simplifying Human Service Transportation and Small Transit System Accounting

A Six State Perspective

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TRANSPORTATION ACCOUNTING CONSORTIUM

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SIMPLIFYING HUMAN SERVICE TRANSPORTATION ACCOUNTING:

A SIX STATE PERSPECTIVE

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TRANSPORTATION ACCOUNTING CONSORTIUM

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EXECUTIVE SUMMARY

This manual outlines accounting simplification methods for human service and rural transit systems. After grappling with departmental administrative and transit provider problems, six states formed an alliance to share ideas, methods and procedures of simplifying human service and rural transit system accounting. The States involved in the Transportation Accounting Consortium are: Arkansas, Iowa, Massachusetts, Michigan, North Carolina and South Carolina. Prior to entering the alliance each of these States independently recognized that a uniform transit accounting system can resolve many management problems they encounter in bookkeeping, and consequently in billing, financial accountability and program service accountability.

The organizational structure and methods of coordinating human service transportation differs in each of these States. Consequently statewide implementation of uniform transit accounting for small transit systems varies. The important consideration, however, is that each State has chosen to pursue uniformity by starting with and modifying the standard chart of accounts for large, urban transit operations. The various models described in this report reflect the state role in selecting and implementing a uniform chart of accounts for small transit operations. The Consortium offers its models to other states as the first step in an ongoing sharing effort.

The first section of this manual briefly introduces small transit system accounting problems resulting from the lack of coordination among various funding sources. The combined efforts of the States participating in the Transportation Accounting Consortium are introduced collectively and individually. Each State approaches resolving the problem based on coordination mechanisms designed to work in the organizational context of their transportation and human service environment. Each Consortium State is applying a systematic bookkeeping approach, procedures and in most instances, automated data processing support to simplify transportation accounting for small transit systems. The background material in this section of the report will assist in understanding why the state models vary.

The second section of this manual is on bookkeeping. It is the foundation for actions to simplify transportation accounting. The bookkeeping method chosen, the degree of uniformity achieved, and the State's role in making the decision are discussed. This section of the manual answers such questions as: What actions can a state take to promote uniform bookkeeping? What state agencies should be involved? What is the best starting point? What modifications have to be made? Can a uniform system be integrated into existing state and local charts of accounts? Are there variations or levels of reporting pending the size of the transportation providers? Can such systems be successfully automated? The questions are answered through individual Consortium State examples.

The specific examples lead to a discussion of the state's role in selecting a uniform method of bookkeeping. A decision tree, with the roles a state can select as well as the extent of uniform operating and financial reporting desired, is outlined. The role emphasis is on the state's human service and transportation departments. Role comparisons of State approaches where the departments act jointly or individually can be made. In the absence of state decisions, the decisions are made locally and with less regard to uniformity. The Consortium State examples outline the decisions made in selecting the degree of uniform reporting. The examples provide realistic alternatives for other states to consider.

The third section of this manual focuses on billing. The issues of rate setting, invoicing, and cost allocation are specifically addressed through the state examples provided. The

importance of service definitions for unit costing, especially for those situations where human service departments purchase public transportation by contract, is discussed. The development of standard invoicing acceptable across categorical program lines is also explained. Cost allocation, or the assignment of charges by the provider to the various funding sources, is a major provider problem. Consortium examples depict how this issue area can be simplified. In one instance, the State's approach virtually results in automatic cost allocation.

The cash flow section, section four of this manual, describes the Consortium State efforts and methods to facilitate the payment of providers. This area was originally investigated as a component of billing. It is treated as a separate section because state decisions other than those dealing with uniform human service transportation accounting affect payment policy.

The fifth section of the manual deals with those problems that result from multiple audits. Transportation providers receiving funding from multiple categorical program sources are subject to a like number of audits. The recent Federal Office of management and Budget mandate for a single audit is expected to resolve many of the multi audit problems. However, it should be noted that federal funds distributed through Block Grants are independent of the single audit. Several of the Consortium States have taken the single audit mandate as an opportunity to simplify procedures for transportation providers. Their approaches are described.

The sixth section of the manual deals with program service accountability. The issues under review deal with client and provider eligibility, as well as the reporting measures necessary. Considering the potential number of funding sources, numerous reports with varying data requirements is the norm. This section describes Consortium State actions to simplify program service accountability.

The seventh section of the manual identifies methods for increasing federal funds to public transportation projects. The method of deriving an unrestricted federal share should be of particular assistance to those states with an interest in developing rural transportation systems.

HUMAN SERVICE AND RURAL TRANSIT ACCOUNTING: AN ADMINISTRATIVE COORDINATION PROBLEM

SERVICE, COORDINATION, and CONCERNS

Since the 1960's many separate Federal and state social welfare programs developed specialized programs to meet service needs. A common element across many of these programs is transportation. Transportation for these programs is normally a support or secondary service.[1] It is a service component in programs such as Aid to Families with Dependent Children, social services, Medicaid, services to the aging, developmental disabilities, vocational rehabilitation, Head Start employment (Concentrated Employment Training Act, Work Incentive (WIN)) and Community Services. Other programs fund transportation as a primary service. These include Federal and state transportation programs for capital and/or operating assistance to transit providers. It has been generally recognized that such categorized programs have led to fragmented delivery systems and accounting requirements. In recent years there has been a growing effort at Federal, state, and local levels to facilitate coordination of transportation services. The idea is simply to rework some of the fragmented transportation components into a more rational service process.

Generally speaking, three types of coordinative mechanisms have been employed; those aimed at: 1) vehicle operations, 2) maintenance and 3) administration. [2]Coordination of vehicle operations includes using clearinghouses for routing, scheduling and centralized dispatch. Improved maintenance projects include central storage of vehicles, central purchasing of parts, and coordinated maintenance programs. In the administrative area, mechanisms include planning, management practices, marketing, driver training, purchasing, and the development of information, billing, accountability, and record keeping systems. Problems identified in this third area, administrative coordination, were further specified in a 1978 study by the U.S. Government Accounting Office (GAO).[3] The GAO reported that 114 separate Federal categorical programs financed transportation. It acknowledged the desirability of coordinating services among these programs. The GAO cited confusion at all levels of government and procedures as the source of the administrative barriers. As a result of the GAO report, many state governments focused their transportation coordination activity on the identification and elimination of state administrative barriers especially for human service and rural transit systems.

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[1]Coordination of Transportation by Human Service Agencies: An Interorganizational Perspective, prepared by Arthur Saltzman U.S. Department of Transportation, Technology Sharing Program. 1980 pp. 9-22.

[2]The working definition of coordination used by the U.S. Department of Health and Human Services is "A cooperative arrangement among human service agencies and public and private transportation operators aimed at realizing increased transportation benefits and cost-effective service through the shared management and/or operation of one or more transportation functions." HDS Transportation Initiative: A Report on Research Finding Office of Human Development Services, Dept. of Health and Human Services, Jan. 1981.

[3]U.S. General Accounting Office, "Hindrances to Coordinating Transportation of People Participating in Federally Funded Grant Programs," Volumes I & II, Human Resources Division, GAO, Washington, D.C., 1977.

THE TRANSPORTATION ACCOUNTING CONSORTIUM

Among the states focusing their interests on administrative coordination were Arkansas, Iowa, Massachusetts, Michigan, North Carolina, and South Carolina. With funding support from the U.S. Department of Health and Human Services (HHS) and the U.S. Department of Transportation (DOT), the common interest between these states was translated into a demonstration project in 1980.

The states formulated the Transportation Accounting Consortium (TAC) whose goal is one of dealing with administrative coordination and technology sharing. More simply, the Consortium goal is the development of simplified, standardized transportation accounting. TAC membership is comprised of two representatives from each state. One member represents the state's public transportation program, the other represents the human service delivery programs. Each state, because of organizational differences and political diversity, is likely to approach the same problem in different ways or entertain different technological methods to resolve it. The following brief description of the states provides some measure of organizational context.

ARKANSAS

Coordination Mechanism

Arkansas' mechanism for interagency transportation coordination is an interagency agreement. The agreement has been developed through the common concern of several state agencies concerned with improving access to service in rural areas. Currently, eight state agencies are involved in the goal of coordinating transportation services to achieve the most efficient method of service delivery. The agencies participating in the effort are: Arkansas State Highway and Transportation Department; Arkansas Energy Office, Department of Education, Division of General Education, Division of Vocational-Technical Education, Department of Health, Department of Higher Education, Department of Human Services and Department of Local Services. Each agency provides staff for the endeavor.

The Transportation Department

The Arkansas Highway and Transportation Department is working on the functions of planning, funding, and developing rural transportation systems. Six rural systems recently have been developed from previous elderly and handicapped (16(b)(2)) funded projects. Plans for adopting uniform accounting and reporting have not been formalized. However, major urban systems report and receive funding directly from the U.S. Department of Transportation.

The Human Service Perspective

Arkansas has a consolidated type Human Resource Department. The various service Divisions include Office of Youth Services, Division of Social Services, Division of Mental Retardation and Developmental Disabilities, Division of Rehabilitation Services, Division of Mental Health, and the Office on Aging.

The Human Service Department treats transportation as a separate social service, and consequently, reports on services delivered. Transportation services delivered are primarily secured through purchase of service agreements. Some are with regional transportation

providers negotiated by Human Service regional contract officers. Moreover, the transit providers are responsible for checking the social service clients' eligibility. Some of these providers experience and report an inordinate expense in performing this function. Each contract is evaluated on the basis of measures the provider and state initially agree upon.

Technology Sharing

Arkansas is at the early stages of developing its coordination mechanism for transportation. Accounting simplification is one among many mechanisms that the State has under consideration for implementation. Formalized plans for computer system support may be considered at a later date. Arkansas has expressed interest in a regional statewide approach to transportation coordination as exemplified by the Iowa model.

IOWA

Coordination Mechanisms and the Department of Transportation

The state of Iowa has a legislatively mandated requirement for transportation coordination and consolidation. The responsibility is fixed in the Department of Transportation (I.D.O.T.). Policy and funds (UMTA Section 18 and 16(b)(2)) are administered to support coordination. A clearinghouse review is required for transportation projects. The mandate is further carried on by the participation of the State Transit Advisory Committee. The Committee includes membership from the Commission on Aging, Department of Public Instruction, Vocational Rehabilitation, Office of Planning and Programming and the Department of Social Services. The focal point for the Department's coordinative and review emphasis are sixteen regions that are composed of multi-county systems. That is, one regional agency is mutually agreed upon by the various county boards as the responsible agency for overhead and administration of public transit, excluding school buses. The single regional agency is responsible for making application to the Department of Transportation for funding.

Technical assistance by the Iowa Department of Transporation is comprised of funding, planning, and management assistance to support coordination of services among programs. A major example of technical assistance is the development of a state-wide Uniform Data Management System (UDMS). I.D.O.T.'s single chart of accounts serves public transportation regions and localities. As such, UDMS is designed to accommodate human service agencies and local conditions. The system is automated and supported by I.D.O.T.'s central computer. Modifications of the extensive UMTA Section 15 Chart of Accounts have been made to accommodate small, rural, and specialized human service operations. One of the features of the system is its reliance on sampling techniques rather than universal count to gather performance data. Iowa views its participation in the Transportation Accounting Consortium as one way to pursue coordination mandates as well as to share approaches with other participating states.

The Human Service Perspective

Human service agencies involved in transportation are encouraged to participate in the Iowa DOT management process. The human service agencies share the same basic geographic regional base of operations. Historically, the state Agency on Aging may well have influenced the course of events in the early seventies by pioneering policy that funded regional transportation projects. At that time, several area on aging agencies became

transportation providers and through providing or coordinating services for other human service agencies evolved into free standing, regional transportation providers. The uniform accounting system serves these regional systems.

For the most part, the aging agencies are integrated into the regionally consolidated transportation information sytem approach. Participation by the Department of Social Services in the statewide management system is operationally limited to the use of rate information derived from it. Some local social services groups participate in regional systems and have the option of using the Department of Transportation's technical assistance.

Technology Sharing

The statewide public transportation information, accounting system and the support of the transportation regions are characteristics of the Iowa Department of Transportation approach. The Iowa model for coordination is heavily based on regional organizational considerations. The statewide availability of uniform transportation accounting and performance measures also reflects the statewide technical assistance approach.

The issue that bears future watching in Iowa, is how the state technical support system will be used to serve human service agencies in the regional setting.

MASSACHUSETTS

Coordination Mechanism

Massachusetts has an inter-agency agreement as the mechanism for transportation coordination. This agreement has been developed at the initiative of the Executive Office of Transportation. It is this Office that is responsible for administering the state's transportation programs, i.e., Section 18 (rural public systems) and Section 16(b)(2) (elderly and handicapped provide non-profit programs) grants. The Executive Office of Transportation staffs the coordination function. Fifteen transportation regions are the focal point. The following agencies are party to a letter of agreement and comprise the Interagency Coordinating Council: the Executive Office of Human Service, the Executive Office of Economic Affairs, the Executive Office of Communities and Development, the Department of Elder Affairs, the Department of Social Services, the Department of Public Welfare, the Department of Mental Health, the Department of Public Health, the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Blind (MCB), the Office for Children, the Department of Youth Services, the Department of Education, the Department of Corrections, the Office of Handicapped Affairs, and the Massachusetts Developmental Disabilities Council. Operationally, human service coordination issues tend to involve the Department of Public Welfare and Elderly Affairs.

The Transportation Perspective

The State Executive Office of Transportation administers the capital and operating support for the UMTA Section 16(b)(2) and 18 programs. Staff is responsible for system funding, planning, and management support. The Coordinating Council reviews 16(b)(2) grant applications for conformity to plan. Regional systems have evolved from communities of transportation interest. Some 240 local units of government, of approximately 350, participate in procuring public transit services from the Regional Transportation Authorities

(RTA's). The RTA's also service human service agencies whenever possible. The Office encourages the RTA's to coordinate human service transportation as part of the funding process. The funding, planning and implementation of the micro computer systems including a standardized accounting package is viewed as one way of developing this coordination for 16(b)(2) systems. Many of the RTA's including those small ones under 50,000 in population, have adopted charts of accounts that have a foundation in the UMTA uniform chart.

The Human Service Perspective

Massachusetts has human service agencies that operate, purchase, or pay clients for transportation services. The human service areas of aging and social services are "focal points" of transportation coordination. Operationally, transportation services in these areas are purchased under contract. Financial reporting requirements are diverse. Six regional offices, not the same geographic areas that exist for public transportation supervise the programs. Forty area offices are the client entry point and administer the services. The Massachusetts Department of Social Services has interagency agreements with the Department of Elder Affairs (DEA), the Rehabilitation Commission (MRC) and the Office of Children (OFC). It also administers programs for the blind in behalf of Massachusetts Commission for the Blind.

Massachusetts treats transportation both as a component of, and a separate human service. Clarification of this inconsistency and service definitions are expected to contribute substantially to future coordination.

One of the methods the Massachusetts Medicaid agency has chosen to pursue coordination with public transportation is the effort to strengthen, facilitate and update the rate setting process. Further, by treating Medicaid payments for transportation as an administrative expense, the State plans to simplify provider reporting requirements.

Technology Transfer

Transfer items in Massachusetts are both human service and public transportation related. Computer system development at the RTA's are usually minicomputer systems with accounting applications. Recent developments include substantial work on microcomputers for use by 16(b)(2) systems. The Massachusetts model reflects an extensive state public transportation network composed of regional providers. The State transportation technical assistance for accounting is being directed toward the local level, small system, rural providers. The human service agency approach is heavily reliant upon developing a consistent methodology for rates.

MICHIGAN

Coordination Mechanism

The Michigan transportation coordination mandate has its basis in a Governor's Executive Order directing the Michigan Department of Transportation, as the lead agency, to coordinate transportation between various state agencies and pursue the goal of "essential mobility" for the citizens of Michigan. The Executive Order mandates other departments in the State to use public transportation if it is more cost effective than any other alternative. The Department of Transportation staffs the coordination effort of an interagency committee consisting of the Departments of Social Services, Public Health, Management and

Budget, Mental Health, Education, Commerce, and the Office of Services to the Aging. Several of these departments also have adopted policy statements on coordination and use of public transportation. The Office of Interagency Transportation Coordination is also responsible for the review of transportation projects to be funded by State departments and agencies and an inventory of such transportation resources.

The geopolitical emphasis is on the county as a rural transit operating entity, although major urban regional systems exist. In Michigan, there are 83 counties. A large number of these have established publicly supported transportation systems. Human service transit needs at the local level normally are matched against the resources of the public transit provider. The coordination of transportation resources at the local level is reinforced by State transportation policy.

The Transportation Department

The Michigan Department of Transportation endeavors to use its funding, planning, management, and technical assistance capabilities to promote county transportation systems. By design, the systems are to serve clients with special needs, as well as the general public. It should be noted that substantial technical effort and state funding is provided by the Michigan Department of Transportation in establishing an extensive network of public dial-a-ride systems. State funding is provided to establish and operate county wide systems. State support, with the exception of fare box revenues, is used to fund the first three years of existence. Public millage is required to support the systems after three years, when operating and capital assistance from the state is reduced.

The Michigan Department of Transportation has adapted the use of the UMTA standard chart of accounts for the non-urban (Section 18 and Elderly and Handicapped) systems. The data is used for technical assistance and distribution of State funds. Modifications to the Federal requirements have been made primarily for this purpose. Statewide reporting is manual and is aggregated annually. There are plans to computerize the tabulations.

The Human Service Perspective

A survey of transportation in the State's human service agencies suggests that millions of dollars are annually spent on transit. Accounting for these funds is folded into various human service financial reporting systems. That is, except in those few circumstances when a separate contract exists specifically for transportation, transit costs normally are an undifferentiated component of social services being purchased. Medicaid transportation is treated as an administrative cost. In many instances, the transportation required to meet human service objectives is beyond the existing limits of public transit providers. Door-to-door service, specialized medical, or distance requirements often deter the use of public transit in such situations.

The Michigan case study is a demonstration of a state, unlike most others, that treats human service transportation as a component part of a human service being directly provided or purchased. Inasmuch as transportation costs are normally a small per cent of the particular human services program budget, a change to more specific human service transportation accounting is unlikely. The loss of opportunity to have a clear financial accounting of transportation expenditures leads to an emphasis on the questions of performance reporting. Inasmuch as Michigan human service agencies procure transportation on a county basis, the county becomes a common service area and the basis of comparisons for human transportation services.

Technology Transfer

The Michigan model portrays a strong public transportation, agency approach supporting the use of a uniform manual accounting system for rural public transit systems. There is heavy reliance on local leadership for coordination. Further, the development of a minicomputer system in one county offers a model for hardware and software alternatives.

The human service model, unlike most other states, treats transportation as a component of service with few exceptions. Data available from public transit providers does offer human service contractors the opportunity to gather program and performance measures.

NORTH CAROLINA

Coordination Mechanism

The State of North Carolina has an Executive Order as the basis for rural transportation coordination and consolidation. The Order also mandates a Coordinating Council and a committee that reviews all requests for transportation funding from any State agency. The Council, a policy making body, includes one member from each of 18 multi-planning regions in the State and the Secretarys' Offices of the Department of Transportation and the Department of Human Resources. The review committee is composed of representatives from the Departments of Human Resources, Transportation, Public Instruction, and Natural Resources and Community Development. The committee reviews applications for State administered transportation funds for conformity to plan and coordination concerns.

The Transportation Department

The State Transportation Department staffs the coordination functions. The focal point of coordinative efforts is the counties. Coordination endeavors are designed to complement county activities.

On the basis of experience, the State review process has resulted in a consolidation of systems. A number of human service transit providers, especially rural systems, have used the consolidation mechanism as a means of organizationally divesting their agency of a transportation operation. Shared vehicle arrangements are also used for coordinating systems. The least used mechanism is coordinated dispatching.

The North Carolina Department of Transportation (DOT), carries on functions of planning, funding, and technical assistance to public transit systems. As already indicated, there is a focused concern with the coordination of rural systems.

North Carolina DOT requires selected public transit providers under UMTA Section 18 funding to utilize a uniform accounting system. The requirement is for only those systems with fixed routes. The concern is to only obtain data that would be functionally comparable with data being submitted by the urbanized systems where section 15 reporting is mandated. Inasmuch as many of the transportation operations are linked to local units of government, accounting methods are adequate and often computer supported. The North Carolina DOT has adopted a long range view that all public transit systems in urban areas of 50,000 and less should have access to microcomputer support for vehicle maintenance, billing, vehicle inventory, scheduling, and client data.

The Human Service Perspective

North Carolina has a consolidated type human resource department. Under the umbrella are such agencies as social services, aging, public health, mental health, medicaid, and vocational rehabilitation. One of the few agencies outside the umbrella is the community action program.

The county is a primary service delivery focal point. Legally, the 100 counties in North Carolina are responsible for administering the human service programs. Each county, then, is responsible for procuring the transportation services needed. Transportation is procured by contract. Contract awards are very dependent upon local decision making. For the most part, transportation is contracted as a separate service and is reported accordingly. The multitudinous ways in which reporting can be accomplished by 100 counties administering the various programs provides an indicator of the state's interest in having a model for program service reporting.

Technology Sharing

The strength of the North Carolina approach lies in the State agency review function. That is, the State combines state agency efforts to assist the locality in coordinating requested, new transportation resources. The heavy emphasis on local decision making logically leads to the state's interest in defining guidelines for transportation performance measures. The investment in future development of a management information system for transportation, both public and human service, will be evaluated on the basis of local impact. Certain, simple performance measures will be desirable at the state level. However, the overriding consideration will be the functional value of the data at the local level.

SOUTH CAROLINA

Coordination Mechanism and Transportation Perspective

South Carolina has enacted enabling legislation that specifies the functions and duties of Regional Transportation Authorities. The purpose of the RTA's is to provide both publicly and privately funded transportation in areas established within 10 regional planning districts. An Interagency Council on Public Transportation has been established by legislation to make recommendations on public transportation issues to both the Department of Highways and Transportation and the Legislature. The Council reviews federal funding for transportation to ensure coordination. Council membership includes: the Governor, Lieutenant Governor, Commissioner of Department of Highways and Public Transportation, Public Service Commission, Commission on Aging, Department of Social Services, State Energy Management Office, Department of Vocational Rehabilitation, Department of Parks, Recreation and Tourism, Department of Education, Office of Motor Vehicle Management, House of Representatives, Members of Transportation Committee of the Legislature, Member of the Senate, Association of Community Action Agencies, Association of Regional County Governments Municipal Association, Association of Counties and Regional Transportation Authority.

The coordination function described above is one that is exclusively the responsibility of the Interagency Council. Functions of planning, funding and technical assistance are shared between the Council, Governor's Division of Transportation and the State's Human Service

agencies. The Council administers state public transportation funds with a goal of developing regional and coordinated systems. The Governor's Office administers public transit programs that are federally sponsored. State funds to support public transportation, a recent phenomena, but are expected to grow. Notably, South Carolina maximizes its federal funds (US Dept. of Transportation Section 18) through its state matching policy. (See section on unrestricted federal share.)

Considerable effort has been devoted to the planning and funding of the regional transportation systems. Currently, four are operating. One of the planning, and subsequently technical assistance functions, has been the adoption and use of a uniform chart of accounts. The system adopted is one that has been specifically designed for regional systems serving both the general public and human service clients. Consequently, the financial system model adopted addressed multi-sourced funding, cost allocation, rate setting, and other financial problems reported by the State and providers.

The Human Service Perspective

Transportation is considered both a social service and a component of other services by the South Carolina Department of Social Services. Consequently, reporting information is quite detailed in the former case and minimal in the latter circumstances. In the case of Title XX social services, local offices procure transportation indirectly for the Department of Social Services. For most other human service programs, Medicaid for example, transportation is secured directly through State offices administering the program. In both of the above cases, services are procured on the basis of price. When the human services agency deals with the State's regional transportation providers, the basis of negotiation shifts to cost. The negotiating parties use a standardized human service transportation contract. Services reporting and many other considerations are automatically structured. In the regions where regional transportation agencies have not been organized, human service agencies are more likely to be providing their own transportation or contracting for service on a price, rather than a cost basis.

Technology Sharing

The standardized financial system used by South Carolina regional transportation providers is supported by a computer system. The design considerations for both hardware and software are available. The South Carolina Governor's Division of Transportation has a strong interest in sharing ideas and system developments. The South Carolina approach emphasizes a strong level of commitment at the Executive Office level.

THE CONSORTIUM APPROACH: PROBLEM ANALYSIS AND DEMONSTRATION

The Consortium has approached the goal of simplifying and standardizing transportation accounting in two ways. First, it sponsored a problem survey in each of the six states. The survey identifies the perceived and real problems envisioned at the operator and state agency administrative levels. In each state, state agencies responsible for administering thirteen different federal funding programs were surveyed along with ten representative transit providers. The survey was designed in two parts. One part measured attitudes of both providers and state agencies. The other part required the submission of factual data on problems identified. The results, both attitudinal and support documentation, provide a base

of data for analysis of issues of concern to the states. The analysis offers states an opportunity to share the results and application of current research.[4]

Secondly, the member states have committed themselves to demonstrations for technology sharing.[5] Problems identified in the survey have been jointly analyzed by those states having an interest in them. The results of the analysis will be used as the planning basis for state demonstrations or to refine state demonstrations currently being implemented. For example, Iowa and South Carolina have initiated computerized accounting systems reflecting their past efforts to simplify transportation accounting. In Massachussetts, such applications are being made by regional transit authorities in rural areas. This experience in conjunction with the joint research being done by member states constitutes current technology sharing within the Consortium. The Consortium is also concerned with sharing its findings with other interested states and governmental entities.

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[4] Accounting and Reporting Practices for Transportation: An Analysis in Six States; Vol. 1 Final Report; Vol. 2 Appendices; Carter Goble Associates, Inc. with Applied Resources Integration; sponsored by U.S. Department of Transportation and the U.S. Department of Health and Human Services, printed by the Office of Technology Sharing U.S. D.O.T. March 1982.

[5] Technology sharing is the process by which the results of research on problems faced by state and local governments are made available to these jurisdictions in a form which facilitates their application. (Working definition from the U.S. Department of Transportation, Office of Technology Sharing, 1982.)

DESIGNING AND IMPLEMENTING BOOKKEEPING FOR HUMAN SERVICE TRANSPORTATION ACCOUNTING

INTRODUCTION

This section of the manual describes how the six Consortium States have approached designing and implementing bookkeeping for human service transportation. Bookkeeping problems are reviewed, a uniform chart of accounts is introduced, the experience of the states outlined, and the roles of the State in selecting uniform reporting is outlined. Bookkeeping is the basic element necessary to sustain the accounting system. Revenues and expenditures must be accurately recorded, properly allocated and adequately documented to provide financial accountability and to ensure correct billings. In addition, the combination of cost data from the accounting system with operational data and other program information establishes a foundation upon which program service accountability variables can be analyzed. The use of a uniform chart of accounts is the key building block for all other accounting simplification issues.

Standardized bookkeeping procedures implemented by transportation providers and recognized by all agencies funding transportation would simplify the accounting process and facilitate greater utilization of the data. This is particularly true for coordinated transportation systems serving public and multiple human service agency contract clients. It is also important for a multi-purpose service agency providing transportation to several entities funded through various grant programs. The models described in this section are related to the role of state agencies in decisions for accounting simplification.

As documented in the previous survey section of this manual, the bookkeeping problems surveyed by the Consortium States were:

- **A wide variety of accounting systems are used by transportation providers**

Both public transit providers and human service agencies indicated that about one-third of each group was required to keep a specific bookkeeping system. Public transit agencies were also much more concerned about coordinating their bookkeeping systems with other public transit programs. Providers also reported the problem of diverse bookkeeping requirements for the human services agencies.

- **The same cost categories are defined differently in various programs**

Public transit respondents were more concerned than other groups with cost categories being defined differently and providers contending with too many separate bookkeeping procedures.

- **Inability to compare financial data among various systems and operations**

State agencies noted an inability to compare or tabulate data among various systems and operations, whereas the providers registered very little concern for this problem. However, public transit agency respondents were especially concerned with the comparability of data among various systems and operations, with approximately 75 percent of those responding reporting a problem in this area.

- **There is no uniform chart of accounts**

Sixty-two percent of the agencies responding indicated that their funding source or program did not require the use of a specific chart of accounts. Those keeping a uniform chart of accounts attributed it to Federal requirements.

A UNIFORM CHART OF ACCOUNTS

It is clear that the most effective method of addressing the bookkeeping problems outlined above would be the development and adoption of a single uniform or standardized chart of accounts, thereby ensuring common definitions of expenditure categories. The Consortium States recognized that a model for standardization existed nationally.

This model was created on January 10, 1977 when the Office of Transit Management of the Department of Transportation, (Urban Mass Transportation Administration), Washington, D.C., promulgated **The Urban Mass Transportation Industry Uniform System of Accounts and Records and Report System.** The uniform system of accounts is required by Section 15 of the Urban Mass Transportation Act of 1964, as amended. UMTA is the only Federal agency which has specified a chart of accounts to be used by grantees in the accounting for, and reporting of program funds spent on transportation.

Section 15 accounting and reporting requirements now represent the most widely used financial and non-financial data collection, reporting system in the public transportation industry. It originally was developed for large urban transit systems. For the most part, however, these systems do not coordinate or contract transportation services with human service agencies. When UMTA and its consultants were developing "Section 15," the awareness, if not the dollars, of human services' transportation had not developed by the traditional public transit community. Consequently Section 15, or modifications of it, are not extensively used by small public transportation properties or human service transportation providers.

However, the Section 15 system represents an industry standard; the first such system to gain national utilization. For that reason, it is an attractive starting point for statewide and demonstration reporting projects. Moreover, as the Consortium State agencies started to examine Section 15 as the basis for their own statewide and demonstration reporting systems, it became evident that modifications to it would be required due to the special conditions.

These conditions may be categorized as follows:

1. State transportation agencies deal extensively with rural transportation providers, small urban systems, non-profit transportation carriers, and certain client-oriented services because of state priorities, and Federal and state financial assistance programs, e.g. Section 18 and Section 16(b)(2) of the Urban Mass Transportation Act, as amended.

2. Efforts to gain economies of scale in vehicle utilization, administrative services, dispatching, maintenance and risk management through the coordination and/or consolidation of separate human service and transportation funding sources make financial accountability requirements extremely difficult to contend with for individual transportation providers.

3. Administrative capabilities and personnel are limited. Turnover of key state and local staff often represents the total loss of one or two years of effort to coordinate funding and services.

4. Public sector investments are being made at the local level without extensive information, planning, and analysis in areas such as cost allocation, rate setting, procurement.

5. Allocation of resources to various transportation providers should be made on a predictable basis. However, equity considerations mean that allocation factors must be comparable across transportation systems, i.e. large urban transit systems, rural, human service, and para-transit bus systems.

Further, if a human service agency were to coordinate services with a public transportation system receiving Federal transit assistance funds, the Section 15 uniform chart of accounts would be in place. However, some have suggested, that the UMTA Section 15 chart of accounts is too transit oriented to be applicable to the many small systems currently operating. Therefore, several important design and implementation questions had to be addressed including:

- Should the DOT chart of accounts be applied to transportation services funded by HHS and other Federal agencies? Is the chart of accounts too transit oriented for human service agency transportation? Are too many local adjustments necessary, therefore obviating its usefullness?

- Should any common chart of accounts be mandated? Is a common chart of accounts across all agencies beneficial? Can each agency have its own? What administrative problems/solutions exist in implementing a common chart of accounts? What modifications are necessary?

- Should each state develop its own chart of accounts? Is the state the best level for standardization? Does each state vary enough in its accounting procedures, administrative requirements, and program management to make individual charts of accounts more feasible?

- What administrative burdens are imposed when a chart of accounts is combined with local and state government fund accounting?

STATE MODELS FOR IMPLEMENTATION

All of the Consortium States are involved in some type of analysis or a demonstration project in the bookkeeping area. An overview of the state approaches is presented below. Each represents a model for adopting a standard chart of accounts.

Arkansas

As part of its efforts to develop a state level approach to coordinating human service and public transportation, Arkansas focused its attention on the adoption of a model chart of accounts and cost allocation method.

Adapted largely from a chart of accounts developed by the United Services Agency of Wilkes-Barre, Pennsylvania, which had included consideration of the UMTA Section 15 Uniform System of Accounts and Records, the Arkansas chart of accounts has been added as part of a "Transportation Appendix" to the State's Guidelines for Accounting, Statistical, Auditing and Performance Indicators. The Guidelines are a single standard promulgated

initially for use by the Comprehensive Community Mental Health Centers, which operate as local non-profit agencies in Arkansas. It is anticipated that the Guidelines will be recommended for all other categorical grant programs under the human services program.

Modifications made to the Section 15 based system were as follows.

State System	Major Modification	Purpose
Arkansas	Note: Arkansas is considering using the chart of accounts and data collection system developed by the United Services Agency (Wilkes-Barre, PA) which is used for comparison purposes.	
	A. Establishes "Departments" as an independent sorting element for financial data.	Adds detail where needed, by mode, program, functional areas, or organization unit.
	B. Establishes "Location" as an independent sorting Key	Adds detail when more than one location is involved.
	C. Specific Accounts	Adds detail by funding sources.
	1. Adds detail "Revenue Object Classes" (especially for local, state, and Federal funding categories).	
	D. Requires actual passenger records on all trips (Section 15 calls for trip sampling process).	Ensures measurement of actual usage of services for billing purposes.
	E. Does not use Section 15 non-financial definitions, and forms. Does not collect all non-financial items e.g. service schedule, road calls, accidents, employee count, service personnel by time of day/day of week. Other information is available concerning client trips and vehicle activities.	Makes the Non-Financial Section more responsive to specific system needs and desires.
	F. Suggests **not** using all Section 15 subsidiary forms for most human services transportation systems.	Simplifies external reporting effort.
	G. Can be computer based.	Eases and simplifies record keeping.

Iowa

A computer based comprehensive transit information system was developed, tested, and implemented in 23 of Iowa's 33 transit properties. This system, known as the Uniform Data Management System (UDMS), was completely consistent with the Section 15 process established by the Urban Mass Transportation Administration. UDMS is an integrated financial and non-financial system which is first an accounting and management process, and secondly a reporting system. The system was operated by the Iowa Department of Transportation. It was flexible enough to accommodate social service programs and local conditions.

The concept of Iowa's UDMS is that single administrative transit agencies in regional and urban areas compile the necessary data. This data serves as a common basis used by all parties for planning, programming, project development, grant application, and system monitoring. The State system ensures:

- development of a uniform accounting system with common line items and definitions;
- establishment of a uniform data reporting system for both financial and operational information; and,
- generation of a uniform project programming process for capital and operational improvements.

The Chart of Accounts:

- Details each account, by number and description, that is available to the particular transit system.
- Identifies the account type:

    a. balance sheet (asset, liability or equity)
    b. revenue
    c. expense
    d. capital assistance
    e. operating assistance
    f. operators' wages
    g. fringe benefits

- Identifies the parent account associated with accounts reflected on the subsidiary schedule.

In addition, the Chart is flexible in that it can be expanded or compressed when necessary as needs change. The potential flexibility of this Chart of Accounts was demonstrated during the UDMS test involving small urban properties. Data requirements for reporting in these properties were determined by applying the definitions from the UDMS Chart of Accounts to the financial transactions occuring within the system.

The procedure for recording the financial information for UDMS input was to extract information from the local accounting system. By interfacing a city's chart of accounts and the UDMS Chart of Accounts, the information was coded in UDMS format on input data forms.

During the UDMS test with regional transit properties, it was decided that quarterly reports were necessary for State Transit Assistance, Aging, Headstart, 16(b)(2) and Foster Grandparents. A biannual report was also needed for Title XX. Data requirements for UDMS reporting were determined by applying the definitions of the UDMS Chart of Accounts to the financial activities occurring within the system. As part of the UDMS training program, manuals were developed documenting system design and outlining implementation procedures. Modifications to the Section 15 based system were as follows.

State System	Major Modification	Purpose
Iowa	A. Establishes "Departments" as an independent sorting element for both financial and non-financial data.	Adds detail where needed by geographic area or contract provider.
	B. Establishes "Client Groups" as an independent sorting element for non-financial data.	Adds detail where needed by client groups for service delivery data.
	C. Specifies Accounts	
	1. Adds new balance sheet line items.	Adds detail where needed.
	2. Reports full detail of balance sheet.	Adds detail for analysis and review purposes.
	3. Adds new revenue "Contract" line items.	Adds detail of funding source information.
	4. Establishes new "Local Cash Grants and Reimbursements" line items.	Establishes separate contract or grant detail.
	5. Establishes new "State Cash Grants and Reimbursements" line items.	Establishes separate contract or grant detail.
	6. Establishes new "Federal Cash Grants and Reimbursements" line items.	Establishes separate contract or grant detail.
	7. Expands "Contributed Services" sections and adds a complete "Contributed Expenses" section.	Establishes functional detail of inkind services.

State System		Major Modification	Purpose
Iowa	D.	Adds non-financial report for "Non-Passenger Services" (e.g., meals on wheels, package delivery).	Fills a need to segregate miles, hours, and other factors related to non-passenger service for an entire system.
	E.	Tracks individual vehicles mileage and characteristics (Section 15 calls for grouping vehicles).	Creates a master vehicle list for trip sampling and inventory purposes.
	F.	Allows for a modified cash or modified accrual accounting system (Section 15 calls for accrual basis accounting).	Recognizes the needs and limitations of some transportation providers, and their inability to maintain a complete accrual based accounting throughout the year.
	G.	Converts to a computer based system.	Eases and simplifies recordkeeping.

Massachusetts

During the course of the Project, the State issued a request for proposal (RFP) to procure six (6) small business microcomputer systems for use by selected private non-profit human service organizations operating transportation programs.

It was the objective of this RFP to provide each of the non-profit organizations with microcomputer hardware and software to enable them to simplify and expedite the collection and storage of client and vehicle data, to generate reports and billings, and to conduct the day-to-day bookkeeping and word processing functions of a small business.

The intent of Massachusetts was to evaluate and possibly test a standard chart of accounts developed by one of the other consortium states as an adaptation to the microcomputer software system. This demonstration involved Federal grant programs which traditionally support transportation programs for the elderly and handicapped.

Massachusetts' policy requiring the use of Section 15 for smaller providers is unwritten. However, some transit authorities modify systems independently to accommodate requirements for cost allocation to accommodate human service agencies.

Michigan

In 1968, the Legislature, by statute, granted the State Treasurer the authority to prescribe uniform charts of accounts for all local units of similar size, function, or service; in order to fulfill the requirements of good accounting practices relating to general government. In this regard, the **Uniform Accounting Procedures Manual for Local Units of Government in**

Michigan was developed, published and distributed by the State Treasurer. In 1978, however, all recipients of UMTA funds including local units of government, were subject to both this reporting system and the Uniform System of Accounts and records required under Section 15.

To further complicate the situation, all State of Michigan departments, boards, offices, and commissions had previously implemented an accounting system based upon publications of the National Committee on Governmental Accounting (Municipal Finance Officers Association's-MFOA-Blue Book). In addition, the Michigan Department of Social Services had installed its own sub-account structure in 1978 in order to assert control over programmatic locations and sub-organizational expenditures.

An examination of all of the above accounting systems revealed that each was compatible with the Municipal Finance Officer's Association's (MFOA) system. The following options were determined to be available to a local unit of government relative to establishing a countywide uniform accounting system for buyer and seller organizations of transportation services:

- Maintain status quo . . . do nothing to the present accounting systems.
- Standardize specific MFOA submodules . . . this approach would necessitate a complete redesign of each unit's accounting system, inasmuch as no single unit exactly conformed to the account numbers prescribed by the MFOA.
- Consolidate local transportation services . . . establishing a single local provider of transportation services which had responsibility for serving multiple publics, including clients of human service agencies, minimizing the need for substantial changes within and among the accounting systems of the several local agencies.
- Establish and maintain a cross reference chart . . . under this option, the county transportation coordinating agency would set up and maintain a simple cross reference or conversion chart, whereby uniform accounting information could be obtained from the existing financial reports of all systems.

This last option was recommended. It involved a minimum of costs to achieve the desired results of a countywide uniform accounting system for transportation.

Michigan originally developed the cross reference chart to allow transportation grant recipients to convert accounting information developed under the State accounting system to the format required by Section 15. However because the Treasury Department accepted components of Section 15 reporting, there was no longer a need in the State for the cross reference chart. Given this acceptance, the Michigan Department of Transportation then modified Section 15 for use by smaller providers. Modifications for smaller transportation programs, Section 18 and 16(b)(2) grant recipients, from Section 15 were as follows:

State System		Major Modification	Purpose
Michigan	A.	Numbers system and non-financial line items.	Adds subtotal and total expense object classes and details "ineligible expense object classes".

State System		Major Modification	Purpose
Michigan	B.	Does not use Section 15 non-financial forms. Does not collect all non-financial items.	Makes the Non-Financial Section more responsive to the brief reporting elements.
	C.	Eliminates balance sheet elements and data (assets, liabilities, and capital not collected).	Makes data collected suitable to report current financial status only.
	D.	Does not follow data collection procedures (uses trip sampling, accrual accounting, report on capital expenses).	Makes data collected suitable to report current status only.

Michigan transit systems utilize purchase of service agreements with human service agencies for client transportation. Hence, the purchasing agency is at arms length from the service provider. Human service agency acceptance of Section 15 financial reporting or accounting is not germane in the purchase of service setting in Michigan. However, opportunity for contracted human service providers to use Section 15 performance measures exists and offers a strengthening of management approach.

In retrospect, the cross reference chart consideration points out that the Section 15 requirements do not have to be superimposed in the legislative requirements for local units of government, but can serve as an alternative for adoption at local government discretion.

North Carolina

North Carolina's problems in the bookkeeping area are being approached in terms of the State's focus on coordinating all forms of social service and public transportation. While the State does not mandate the actual structure of a coordinated transportation system, many counties choose to select a "lead agency." Other agencies lease or otherwise turn vehicles over to the lead agency who in turn provides services on a contractual basis. Because multiple funding sources are almost always involved, a burden is placed upon the provider by the funding source. A provider agency may have to maintain a separate chart of accounts for each funding source. This substantially increases the amount of administrative effort expended by the provider. It results in a disincentive for coordination and less cost efficient service.

Those agencies within North Carolina that have adopted a standardized chart of accounts as a management information system tool have reported that that uniform system, although beneficial, has actually increased the paperwork burden of the local agency. An analysis needs to be performed to determine why this work increase has occurred. Like Michigan, local governments in North Carolina are required by statute to utilize a standard chart of accounts formulated by the state's Local Government Finance Commission and promulgated by statute through the Department of Treasurer. Adding Section 15 requirements, it is believed, would overlap existing reporting systems.

The goals of the North Carolina project included the following:

- To develop standardized bookkeeping procedures that would allow for common definitions of transportation cost categories that were acceptable to all funding sources.
- To inventory and examine the commonalities between the bookkeeping systems required by the funding sources in order to identify changes within the existing structure that would facilitate a reduction in the administrative burden associated with bookkeeping.
- To make a comparative analysis of the burden associated with the adoption of a uniform system of accounts across all transportation programs.

The State of North Carolina assessed the modified Section 15 chart of accounts developed by the State of South Carolina and found the chart of accounts developed for providers with 16 or more vehicles to adequately reflect North Carolina's needs. The North Carolina Department of Transportation (NCDOT) sought to modify the Local Government Finance Commission's standard chart of accounts to accommodate the DOT/UMTA Section 15 reporting requirements according to the following methodology:

- Evaluate the existing government format and account categories.
- Determine the extent to which local government and Section 15 (South Carolina-modified) chart of accounts are compatible.
- Establish the necessary subheadings in the local government chart of accounts to include the required Section 15 line items.
- Develop a mock-up of an amended local government chart of accounts to reflect the Section 15 format.

An evaluation was completed of the chart of accounts prepared by the State and Local Government Finance Division of the North Carolina Department of the State Treasurer, dated May 1982. The report is in relation to the Model Uniform Chart of Accounts for Transportation Entities (larger provider size) contained in the **South Carolina Financial Operating Manual for Transportation Providers** (March 1982). It was determined that the North Carolina local government chart of accounts could be easily modified to reflect specific Section 15 transportation items through appropriate sub-account codes and titles. Staff of the Division of State and Local Government Finance in the North Carolina Department of the Treasurer were consulted with regard to consistent coding, clarification of descriptions and compatability of definitions. Applicable and appropriate titles and object codes were identified from the North Carolina Local Government Chart of Accounts and the South Carolina Uniform Chart of Accounts. They were combined in a "Recommended North Carolina Uniform Chart of Accounts for Transportation Providers". In some cases, the title and code were noted "if applicable" or "as necessary" to reflect flexibility.

The chart was structured to accommodate a parallel allocation matrix in order to designate expenditure codes according to administrative, operating and non-operating categories. This matrix provides assistance to grant recipients in meeting Section 15 reporting requirements.

Definitions were also provided to clarify interpretations of account titles when necessary. Modifications to Section 15 were:

State System		Major Modification	Purpose
North Carolina	A.	Collects data for Fixed-Route (urban/municipal) Operations with 16 or more vehicles.	Establishes a statewide base of comparable data for line-haul systems.
	B.	Establishes a South Carolina modified system for Dial-a-Ride or rural properties based on site of operation.	For demonstration and test purposes.

South Carolina

The State's bookkeeping efforts centered around the development of the **South Carolina Financial Operating Manual for Transportation Providers.** The preparation of the manual was brought about because of the recognition of the often confusing and, in many cases, duplicative, restrictive, or overlapping financial accounting procedures required by the various Federal and State programs concurrently supporting operations for several different types and sizes of transportation providers.

The Manual represented a compilation of all of the financial accounting requirements of the more than sixteen different Federal programs which currently provide funding in support of transportation activities in South Carolina. The analysis was derived from an assessment of more than thirty separate guides and regulations promulgated by the seven separate Federal agencies and additional eight counterpart State agencies which are involved in administering these funds. The purpose of the Manual was to offer a "one-stop" source book for financial managers and bookkeeping personnel who are responsible for correctly accounting for the expenditure of Federal/State funds by the transportation provider.

South Carolina initiated a systematic approach in developing this Manual. It relied heavily upon the assistance, participation and cooperation of the finance directors from each of the State human service and public transportation related agencies which provide funds in support of transportation programs in the State. A matrix which lists the regulations and requirements for each Federal and State program can be found in the manual. Reading across the matrix, one can compare, for example, the insurance requirements for each Federal program funding transportation. The subsequent analysis delineates those regulations common to each program, and isolates those few stipulations peculiar to a particular program.

Many of the State human service agency documents quote or reference the Code of Federal Regulations directly, or Federal circulars. The main points of difference between State manuals were those points covering private non-profit versus public agencies. Therefore, large portions of several of the individual State manuals, were found repetitive. Results of this review can be found in the Manual.

Additionally, specific components of the Manual, included a standard contract, uniform chart of accounts, zone fare program, and concurrent audit. These components are being tested at the Santee Wateree Regional Transportation Authority and the South Carolina

Human Services Demonstration Project in York County. It is anticipated that these procedures and systems will be refined as a result of the tests, and such changes will be incorporated into the Manual.

The model uniform chart of accounts for transportation entities in the Manual was based on the UMTA Section 15 chart of accounts. The purpose of the chart of accounts was to provide a uniform structure to the accounting systems used by the various transportation providers in the State of South Carolina. The design of the chart provided for a high degree of flexibility in view of the different entities providing transportation services. The chart itself was not to be considered as an all-encompassing system of accounting, but rather as a base to be either expanded or contracted when considering the specific needs of the user.

Modifications to the Section 15 were as follows:

State System		Major Modification	Purpose
South Carolina	A.	Establishes numbering system (4 digits without decimal).	Simplifies numbering system, but also for flexibility to add line items.
	B.	Specifies Accounts	
		1. Establishes new balance sheet line items.	Adds detail where needed - in light of the Section 18 program.
		2. Renames select line items.	Clarifies meaning and makes relevant to Section 18 Program.
		3. Details "Passenger Fares" line items.	Establishes geographic area or route detail.
		4. Details "Local Grants and Contracts" line items.	Establishes separate contract or grant detail.
		5. Details "State Grants and Contracts" line items.	Establishes separate contract or grant detail.
		6. Details "Federal Grants and Contracts" line items.	Establishes separate contract or grant detail.
		7. Combines contract and government grants sections for each level of government (local, state, and Federal).	Simplifies chart of accounts.

State System		Major Modification	Purpose
South Carolina		8. Redefines "Federal Funds" which pass through state agencies as "state funds" (e.g., Section 18).	Allocates revenue sources which are legally considered state funds.
		9. Combines "Charter Revenue" into "Other Transportation Revenue".	Simplifies chart of accounts.
		10. Expands "Contributed Service" revenue section and expense section.	Establishes functional detail due to different funding categories in Section 18 program, Capital/Administration and Operating.
	C.	Eliminates "Reconciling Items" established in Section 15. Makes them a regular part of expense line items.	Simplifies chart of accounts.
	D.	Adds space in chart of accounts for "Non-Transportation Grants and Contracts" as designated by local agencies.	Adds flexibility for local agencies which also deliver non-transportation services and specialized human service transportation services.
	E.	Adds a number of line items which relate to organization-wide expenses that are not identified with any single agency function/service (e.g. Transportation, Weatherization).	Establishes a pool of indirect expenses to be allocated to specific grants and contracts through a cost allocation plan.
	F.	Allows for modified cash or modified-accrual accounting system (Section 15 calls for only accrual basis accounting.	Recognizes the needs and limitations of some transportation providers and their inability to maintain a complete accrual based accounting system throughout the year.
	G.	Requires actual passenger records on all trips (Section 15 calls for trip sampling process) for passenger mile calculations.	Ensures measurement of actual usage of services for billing purposes.

State System		Major Modification	Purpose
South Carolina	H.	Provides a basis for computer-based and manual systems.	Adds flexibility and simplification of recordkeeping.

There is a significant range in the size of transportation providers in the State of South Carolina from small community action agencies and aging councils with a single van to large regional transportation providers with a fleet of fifty to sixty vehicles. In attempting to design the chart of accounts to satisfy the needs of the various sizes of providers, the following user categories were established:

Small providers - those entities operating one to five vehicles

Medium providers - those entities operating six to fifteen vehicles

Large providers - those entities operating in excess of fifteen vehicles

In the implementation of the chart of accounts, an organization first determined whether it is a small, medium or large provider and then reviewed the account listing to determine which accounts are recommended for the selected level of operation.

Currently, the chart of accounts is being tested by two agencies of differing type and size. Following the test period, the chart of accounts will be refined to meet the needs of the varying sizes and types of agencies expected to use it. In addition, the feasibility of automating the standard charts of accounts for dissemination to agencies of various sizes will be evaluated.It is hoped that after having satisfied all agency difficulties through the test process, the individual boards and commissions will adopt the **South Carolina Financial Operating Manual for Transportation Providers** in lieu of all the individual program manuals currently in effect.

SUMMARY OF IMPLEMENTATION

As the Consortium States began to examine Section 15 as the basis for their own statewide and demonstration reporting system, it became evident that modifications or extensions would be required due to the special conditions that existed within their geographic area. Six approaches emerged:

- Arkansas - integration of transportation related account items into a human service agency chart of accounts. Only urban public transportation providers use Section 15 with the exception of one smaller system.

- Iowa - the adoption of a mandated State level UMTA Section 15-based system. The data requirements for reporting are extracted from either the local accounting system in the case of an urban area, or by applying the definition of the State level chart of accounts to the financial activities occurring within public transit systems in regional agencies. Human Service agencies are served with existing data at their request.

- Massachusetts - monitoring of uniform chart of account modifications for potential use in demonstration projects using microcomputers for management information systems. Currently, efforts to gain uniformity of an accounting approach by human

service agencies are dependent on the type of chart of accounts adopted by the local transit provider.

- Michigan - the exploration of a cross-reference or conversion chart. The chart contains the common or similar account titles and codes utilized by each differing transportation service agency for the purpose of aggregating uniform accounting information. The conversion chart is not needed because local units of government could adapt segments of uniform accounting to their systems. The Michigan Department of Transportation has extended a modified Section 15 accounting approach to Section 18 and 16(b)(2) providers. Human service agencies have the option of using the existing data for contract performance measures.

- North Carolina - modification of the Local Government Chart of Accounts through appropriate sub-account codes and titles reflect specific Section 15 transportation items. Both public transportation and human service providers with larger systems, sixteen or more vehicles, use the system. Smaller systems will be used to test the feasibility in future demonstrations.

- South Carolina - modification of the UMTA Section 15 Chart of Accounts to reflect the needs of multi-purpose human service agency transportation providers and to include a matrix of mandatory account items necessary for various providers based upon the size of the system and number of vehicles operated. The system is designed to serve both public transit and human service providers.

It is noteworthy that both South Carolina and Iowa, working independently, selected Section 15 as the basis of their statewide systems. The former uses minicomputer technology, the latter a main frame computer. However, both states found it necessary to modify the basic Section 15 model. It is also worth noting that Section 15 was found to be adaptable for public transit **and** human service transportation. Further, Section 15 was viewed as an excellent starting point for management information system development.

Adherence to Section 15 formats, definitions, and procedures is an issue of degrees. Iowa chose to make its MIS as close to Section 15 as possible. South Carolina took a more liberal approach. Nevertheless, the list of **independently chosen modifications to Section 15** from the two states shows some remarkable similarities:

1. New balance sheet accounts with more detail,

2. Farebox and contract revenue detail by source,

3. Local, state and Federal funding detail by source,

4. Expanded detail for contributed services (in-kind income and expense equivalents);

5. Modified accrual or modified-cash basis for accounting is allowed (full-accrual basis is recommended),

6. Significant detail for client groups, geographic areas and contracting arrangement; and,

7. The accounting system is supported by computer technology.

All of these modifications of Section 15 fulfill three major purposes:

1. Increase internal control, management and decisionmaking abilities;

2. Establish the total and true cost of transportation services; and,

3. Augment the transit managers ability to sell, monitor and account for services in a fair, equitable, and complete manner.

Additionally, Section 15, as modified, serves as a uniform external reporting mechanism. Where transit systems interface. Section 15 can provide a "common language" for discussion, analysis, and coordination between provider types.

Arkansas, Michigan, and South Carolina also have made extensive changes to the Section 15 non-financial reporting and data collection processes. This was done for the following reasons:

1. Simplify the data collection efforts;

2. Simplify the reporting requirements;

3. Increase program service accountability especially to meet certain human service contract or program needs; and,

4. To allocate state resources.

Section 15 derived financial and non-financial systems are currently being employed across the six Consortium States as indicated in Table 1.

TABLE I
Status of Section 15 - Based Systems and Uniform Charts of Accounts in the TAC States

PROGRAM	ARKANSAS	IOWA*	MASSACHUSETTS	MICHIGAN	NORTH CAROLINA	SOUTH** CAROLINA
U.S. DOT SECTIONS 3 & 5	Recipients report to UMTA	UDMS used in 4 systems 6 others report to UMTA	Recipients report to UMTA	Recipients report to UMTA	Recipients report to UMTA	Recipients report to UMTA
U.S. DOT SECTION 18	One system uses uniform charts of accounts	UDMS used in all 25 systems	Section 15 info available from providers via mini-computers	Uniform chart of accounts required (manual processing)	Only line-haul systems are required to use uniform accounts	Section 15 (computer-based) system used on demonstration basis
U.S. DOT SECTION 16 (b) (2)	Some uniform reporting	UDMS used in all 7 systems (no other recipients)		Some uniform reporting	Some uniform reporting	Capability exists to support providers with demo project computer
U.S. HHS-SSA TITLE XX		UDMS used for rate setting data and fully accepted to several areas				
U.S. HHS-SSA TITLE XIX		N/A				
U.S. HHS-OAA TITLE III		UDMS fully accepted as transportation information source				
U.S. HHS-CSA		UDMS accepted in several areas	Demonstration includes accounting system which may be modified by locals (supported by micro-computer) to accomodate human service reporting			Regional Uniform Accounting System (supported by mini-computer) accomodates human service reporting: uniform definitions & procedures developed
U.S. HHS-DOE	Penn. (USA) system is suggested	UDMS accepted for demonstration projects				
U.S. HHS Voc. Ed.						
U.S. HHS AFDC						
U.S. HHS WIN						
U.S. HHS Head Start		UDMS accepted in most areas				
U.S. DOL CETA						

*Section 15 slightly modified.
**Section 15 more flexibly modified.

CONCLUSION

It can be concluded from the Consortium's experience that while the UMTA Section 15 Uniform System of Accounts and Records cannot be accommodated in total by the variety of state and local transportation providers, its principal components, however, can be incorporated into a variety of accounting systems in order to have a standard or common basis for cross-comparison of transportation services and evaluation of performance among transportation properties.

A common set of UMTA Section 15 cost categories as they relate to specific line item account titles could therefore be mandated at the Federal and/or state levels along with uniform definitions for utilization in transportation programs. Most governmental accounting systems are based largely upon generally accepted accounting principles developed according to national standards. Hence, in actuality, there should be a great deal of conformity between state systems. The recommended approach is to request Federal Department of Transportation officials to assist in designating those Section 15 components necessary for common evaluation purposes. Other Federal agencies funding transportation services should agree to the components defined.

It is clear that the UMTA Section 15 chart of accounts in total is too transit oriented to displace charts of accounts utilized by human service agencies that offer an array of services. However, Section 15 has been modified for use by human service transportation providers when the scale of transportation operation is large enough to require accountability. Further, Section 15 nonfinancial reporting can provide a basis for uniform performance reporting for human service agencies. In addition, the imposition of a totally new chart of accounts upon local government accounting systems can result in certain legal, administrative, and financial burdens. However, components of Section 15 can be modified for such systems with minimum disruption. Standard designated UMTA Section 15 cost categories can be easily subordinated to existing charts of accounts which avoids enormous administrative and financial burdens on the provider. Savings occur particularly with regard to those costs associated with the interfacing of a new system with an existing computerized system.

In introducing a modified chart of accounts for transportation programs, providers should be given an accompanying manual. The manual should include account classification definitions. The provider should be afforded opportunities to attend workshops or receive onsite training in order to ensure effective utilization and implementation. Technical assistance is also highly desirable.

A Decision Making Tool

The U.S. Department of Transportation has developed and implemented under Section 15 a standard chart of accounts and operating procedures. Implementation has been for major public transportation providers in the major cities of the nation. An implementation strategy for numerous other providers is unaddressed. For example, consider those transportaton operations that have grown out of Federally supported programs dealing with the provision of specialized human services. It is precisely such systems as these, the small urban providers, the rural dial-a-ride systems and the non-profit carriers, that state agencies promote and encourage. State support for such systems usually is based on the rationale of public service and accessibility. Inherent in the rationale is the concern for measuring cost efficiencies and effectiveness.

The choice to measure costs of these smaller transportation operations is one that is available to the states. Of course a state or its agencies can choose not to gather such information. In such cases, the avenue is open for local decision making. In making the decision to obtain such information, state agencies can assume any one or a combination of a number of roles. The decision tree in Figure 1 portrays these roles and the levels at which they operate. In general, decisions dealing with a uniform chart of accounts are made at five levels. These levels include:

1) the governmental role;

2) selecting and monitoring role consisting of financial and/or operating data;

3) choosing uniform or individual reports;

4) selecting the extent of cross comparison; and,

5) Choosing Section 15.

The roles at the first level of decision making include the governmental unit using:

a) operating regulation based on licensing requirements.

b) financial regulation including state development of rates.

c) financial assistance and the allocation resources including grant funds.

d) the provision of enabling legislation for taxes, such as local millage issues, used to support public transportation operations.

e) management and technical assistance, such as planning and implementing new systems.

Once a choice of role(s) has been established at the first decision level, the major paths of the decision tree deal with operating and financial requirements. This is the second level of decision making. The involved state or other governmental agencies will consider the extent of operating and/or financial monitoring and accounting desired. Although the decision could result in choosing both, some agencies could choose only financial monitoring and accounting.

The third level of decision making focuses on the degree of uniformity desired for the operating and financial reports. Depending upon the agency making the selection, decisions can vary considerably. For example, if anyone of a number of state human service agencies is exclusively making the decision, uniform financial reports could be chosen for that categorical program. Consider that other state human service agencies also could make a similar decision. This situation results in a series of reports that are uniform only for one program area. However, considering these reports in a statewide context, the result is individualized, noncomparable data between programs.

The fourth level of decision making pertains to the comparability of the operating and financial data. The desirability of comparing financial data to obtain cost comparisons leads to the concern for uniformity of data. Many of the agencies in the Consortium States have determined that comparable data is desirable. As such, the Section 15 was selected as the basis of these systems. This is the fifth level of decision making.

FIGURE 1

GENERAL TRANSPORTATION PROGRAM DECISION TREE

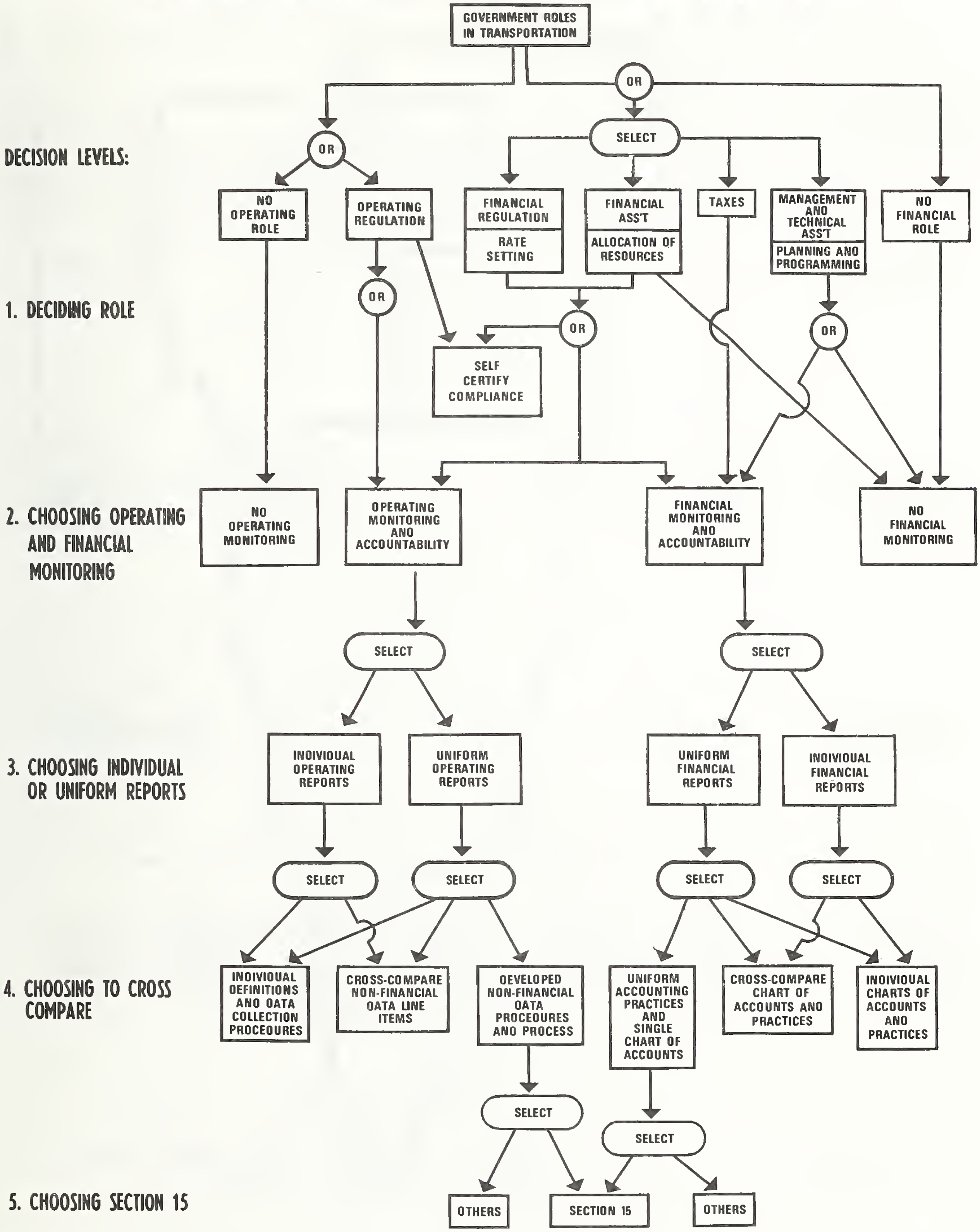


FIGURE 2

SECTION 15 DECISION PROCESS IN IOWA

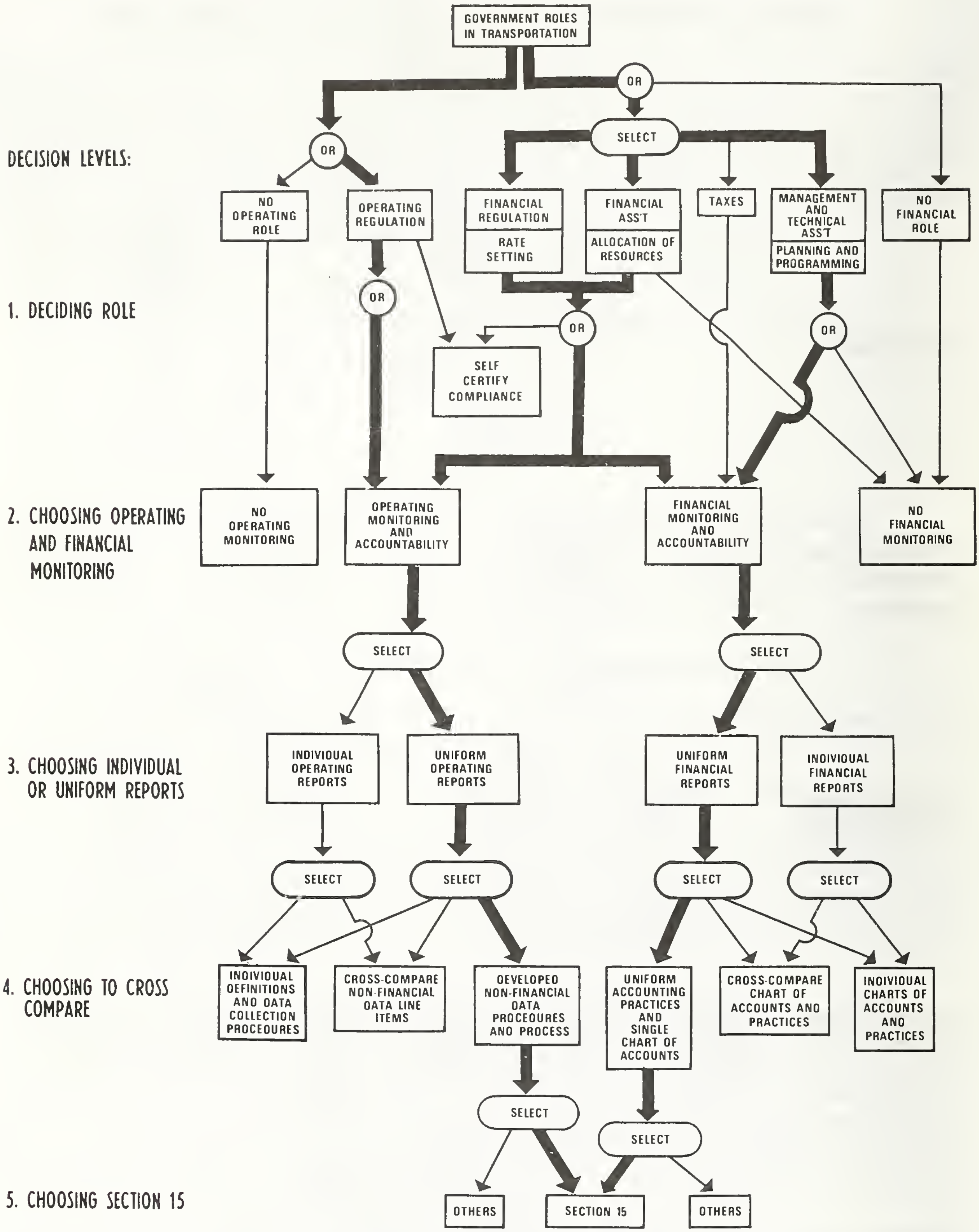


FIGURE 3

EXAMPLE: SECTION 16(b)(2)

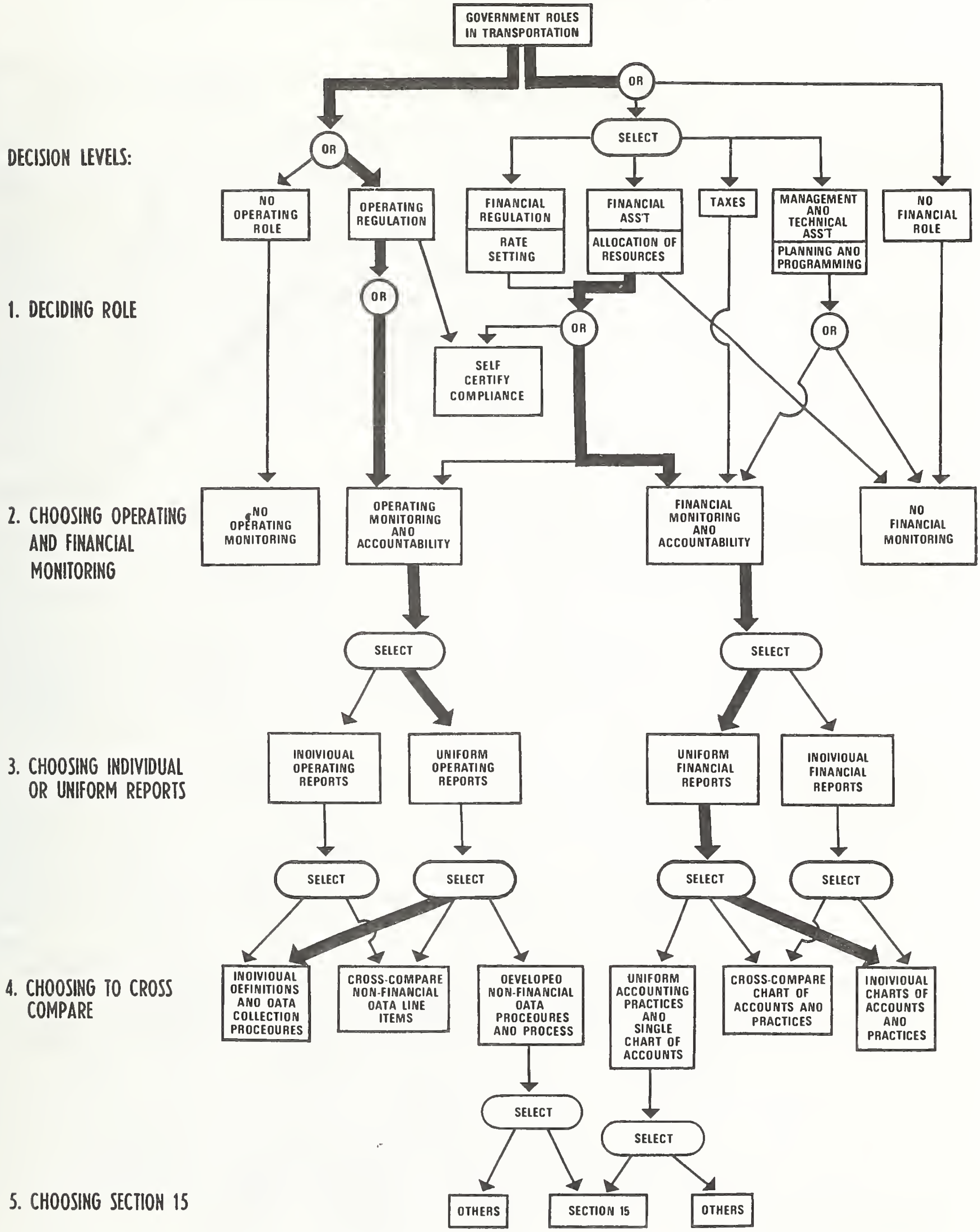
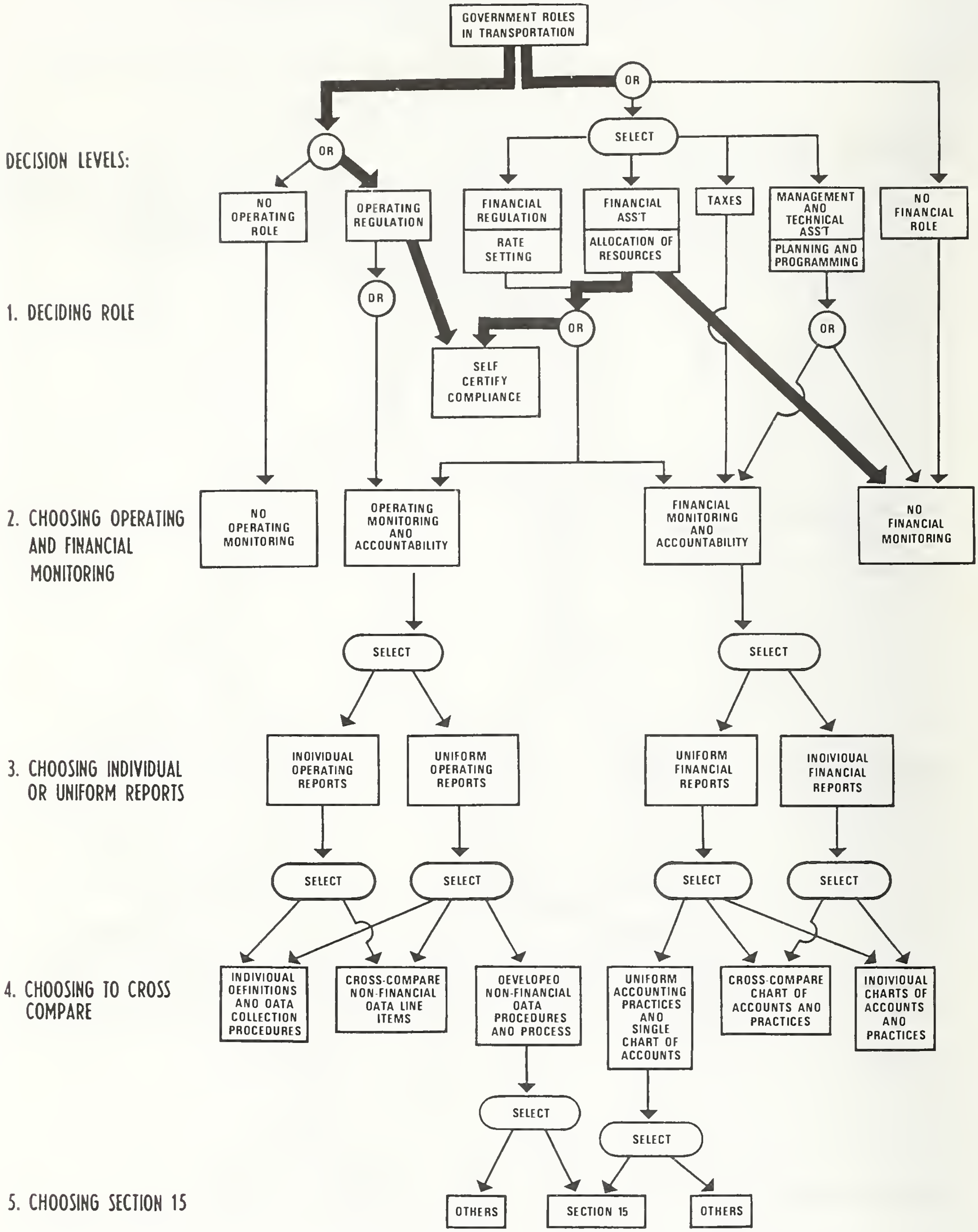


FIGURE 4

EXAMPLE: "BLOCK GRANTS"



Consortium State Examples

The Consortium states have, and are working their way through a variety of decision paths regarding Section 15. A brief description of the approach being taken by the human service and public transportation agency in each state is provided to more completely describe the implementation models.

In Arkansas, Section 15 has been implemented for the major urban providers as federally required. Use of Section 15 by smaller providers has not been required by the Arkansas Department of Transportation. However, the Department of Human Resources, recognizing a role of financial assistance through service contracts, has decided to make financial and operating accountability measures available to its contractors. The system adopted is Section 15 based. Use of the system is optional. Consequently, one state agency has set a direction with the remaining decision making at the local provider level. The provider can choose a uniform system, or follow a path of self-certification as portrayed in Figure 4, Human Service Block Grants.

The Iowa model is portrayed in Figure 2. The Department's of Transportation role is one of allocation of resources, and management and technical assistance. Statewide uniformity of financial and operating reporting has been decided on for all the various types of DOT programs. This decision highlights the role of the State's Transportation Department. Some degree of operating and financial uniformity has been chosen for the state as a whole. Iowa's human service agencies individually are deciding on the degree of uniformity to be adopted. For example, the State Commission on Aging has adopted the UDMS system totally. The State Social Service Department has chosen to use a segment of the system for rate setting. As the human service agency decisions are being made, the decision paths will follow one that is portrayed in Figure 1 or 4.

The Massachusetts model emphasizes the role of local decision making. Local, regional public transportation providers have selected and implemented uniform charts of accounts. The decision on how far to implement a statewide system is evolving. By comparison, the human service agencies contracting for, or acquiring client transportation from these providers currently are heavily influenced by the State's regulatory rate setting emphasis. The results of a human services public transportation contract arrangement are individualized reports as indicated in Figure 3 or 4. In those instances where the local transit provider decided to use uniform, Section 15 based operating and accounting, local reports will have some degree of uniformity.

The Michigan example of the Department of Transportation selecting a Section 15 based system follows, with the exception of rate setting, the same decision path as Iowa. See Figure 2. Both uniform operating and financial reports are required. The major areas of differences are at provider systems in Michigan are county based rather than regional, and the modifications have been adopted so as to distribute State funds. Inasmuch as Michigan human service agencies treat the purchase of transportation as a component of service, the financial assistance role chosen the human service agencies usually results in individualized financial and operating reports. See Figure 3. The human service decisions are made at the local level.

The South Carolina model exemplifies the joint decision making by the State's transportation and human service departments. The approach is to evaluate, test, and adopt a uniform, Section 15 based accounting statewide. The roles of the State agencies mutually include the

allocation of resources. The Department of Transportation additionally is pursuing the role of management and technical assistance. The decision making emphasis is at the state level.

The North Carolina model demonstrates the State Transportation Department taking the role of financial assistance, and management and technical assistance. The Department has chosen to require those transit operations with fixed routes and sixteen or more vehicles to use a uniform, Section 15 based chart of accounts for financial reporting. With the exception of uniform operating reports, the decision path is one depicted in Figure 3. The Human Service Department in conjunction with Department of Transportation will be approaching uniform accounting with smaller providers as the basis of demonstrations using microcomputer technology. The decision making for the human service agencies is at the local level.

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STATE IMPLEMENTATION
OF HUMAN SERVICE TRANSPORTATION
BILLING

INTRODUCTION

This section of the manual deals with how several of the Consortium States have analyzed, planned, or implemented billing systems to simplify human service transit accounting. The definition of billing, its components, and surveyed problems will be discussed before outlining the experience of the States. The reader is encouraged to review the decision tree chart in the previous section keeping in mind that the decisions made on bookkeeping affect the uniformity and simplicity of the billing systems designed. Inasmuch as both state human service and transportation agencies can be involved in the decision, the models must be considered from both perspectives. As summarized in Table 1 of the bookkeeping section, there is considerable variation in the use of a uniform bookkeeping system in the public transportation and human service programs administered by the Consortium States.

The Consortium defines billing as the process of charging customers and agencies the correct, equitable rate for transportation services provided. The components of billing are: 1) rate setting; 2) invoicing; 3) cost allocation; and 4) cashflow. Rate setting is that set of activities by which a funding source, the purchaser, establishes the basis for amount of payment it will make to service providers. Invoicing is the mechanism the provider uses to periodically claim payment for services rendered. It includes allowable costs, trip and operating data. Further, it allows for the allocation of costs to the service program based on a unit cost or billing rate. Cost allocation is the process of apportioning the costs of a transportation provider to multiple purchasing agencies. Cash flow deals with the timing and distribution of funds to transportation providers. In as much as state cash flow payment mechanisms can be influenced by factors other than the selection of a uniform chart of account, and the state models vary considerably, it has been treated as a separate section in this manual. Rate setting, invoicing and cost allocation are important considerations in establishing coordinated human service transportation. Moreover, rate setting, invoicing and cost allocation in human service transportation environment have developed in a haphazard manner. This has caused a high degree of concern to both transit providers and purchasing agencies. These problems were documented by Consortium survey results. Both transportation providers and state agencies administering transportation program funds agreed on the following problems:

- **Current rate setting procedures do not consistently reflect the true cost of service.**

Although both groups expressed rate concerns, providers were generally more concerned about this problem than their state agency counterparts. Provider awareness also was more acute for problems in the invoicing area. The invoicing problems providers noted were:

- **Transportation providers have to contend with too many differing procedures, forms, and units of service designation.**

- **Transportation providers have to contend with too many differing forms and spend too much time on invoice preparation.**

- **In cases where clients are eligible for several funding programs, a provider may not bill the appropriate funding source because of excessive billing requirements or inequitable rate setting practices.**

- **Both provider and state agencies expressed a relatively high degree of concern that:**

PRESENT BILLING METHODS DID NOT ALWAYS PRODUCE EQUITABLE ALLOCATION OF COSTS TO PROGRAM FUNDING SOURCES.

Rate Setting

The goal of rate setting is for the purchaser to receive services at a reasonable cost, and for the provider to cover the costs of developing and delivering the service.

The starting point for developing a rate is to determine a unit of service by which to measure the quantity of service provided. Units of service commonly used by transit providers include one-way passenger trip, passenger miles per trip, vehicle hours per trip and zones. There is not a best unit of service; the most important features are accuracy, simplicity and cost effectiveness. One-way passenger trip is the simplest, most accurate, and cost effective unit of service to use. Miles per trip and vehicle hours per trip both increase data collection requirements. Therefore, they are more complex, increase the error rate, and are more costly. The zonal fare method is a combination of passenger trip and vehicle miles. A zonal fare system is more complicated to initiate, but once in place, it is easy to administer. The above listing of the various units of service must include consideration of the size, complexity, and funding structure of the transit provider. These considerations will dictate trade-offs among simplicity, accuracy and cost effectiveness.

The second point in developing a billing rate is to determine the total cost of providing the transit service. It is a simple division process: "total cost divided by units of service determines a cost per unit of service."

Rate Setting Strategies

There are many rate setting methodologies available to assist rate setters in their search for a reasonable rate. However, having a human service agency administrator or public transit operator learn all the methodologies would be of little value because a large portion of the material is not appropriate to a situation. Instead, it would be of greater benefit to review two rate setting strategies to understand the application of each. Once a particular strategy is chosen, the rate setting process can be tailored to meet the specific situation. The two strategies are price-related rate setting and cost-related rate setting.

Price-Related Rate Setting

Price-related rate setting is appropriate if a competitive market exists. If a competitive market does exist, it is assumed that prices are reasonable. Since prices are deemed to be regulated by the market, the funds source can pay according to the current prices. One difficulty with price-related rate setting is that the assumption of a competitive market is not always valid when discussing public transit and social programs.

Cost-Related Rate Setting

Cost-related rate setting requires identification of operator costs and agreement on which costs are eligible to be included in the cost base. Once the costs are identified and a cost base established, a rate can be determined according to the volume of service to be provided.

Cost-related rate setting is often further subdivided into retrospective rate setting and prospective rate setting. The primary variable that distinguishes the two is the predictability of the level of service to be provided.

Retrospective rate setting is used when the level of service to be provided fluctuates or is otherwise unpredictable. Generally, this method anticipates waiting until actual costs are known. In the purest sense of the term, this method is not really rate setting. This is because the total reimbursement amount is not determined until actual costs are known. However, the total reimbursed costs are incurred for some finite level of service. Therefore, a rate can be determined, although after the fact. Retrospective rate setting may be appropriate in contractual negotiations between public transit providers and human service agencies under some circumstances. For example, if it is a new service, cost, and level of service may not be known.

Prospective rate setting is appropriate when service needs are reasonably predictable and provider costs are identifiable. This method can be used when the transit provider has been in operation for several years and historical cost data is available. Historical data can be used to predict current operating costs. The funding source and provider then agree on an amount or rate per unit of service to be paid. A detailed analysis of provider costs after the period of service is not required. This method appears to be the most appropriate for public transit and human service agency contracts.

Invoicing

The general issues in invoicing procedures are what data to collect and the amount of administrative burden that results, or can be avoided. What data is necessary to reflect allowable costs? What measure is used for unit costing; what operating cost information is necessary? If several human service agencies and the general public are being served by the program, what data is needed to reflect these separate costs? What are the administrative burdens? The state implementation models answer these questions in several ways depending on the size, complexity, and funding structure of the provider.

Cost Allocation

The main issues in developing a cost allocation procedure are equity, simplicity, and cost to implement and use. Cost allocation is a provider problem stemming from multiple funding sources. It is the goal of most transit providers to maximize equity and minimize the complexity and expense of implementing a cost allocation procedure. Therefore, trade-offs must be made. Generally, costs are allocated on the basis of consumption of service, and measured by the unit of service used in the rate calculation. The one-way passenger trip, although easy to administer, provides the least specific method of cost allocation. Miles per trip and vehicle hours per trip both provide a more accurate cost allocation because they more closely approximate the actual cost of the service provided. However they are more difficult to administer. Zonal fare costing virtually results in automatic cost allocation. Again, the size, complexity, and funding structure of the transit provider will influence the choice of a unit of service and cost allocation procedure.

STATE MODELS FOR IMPLEMENTATION

Four of the Consortium States analyzed or demonstrated methods for simplifying transportation billing. As such, billing considerations can be considerably influenced by the type and extent of uniform accounting adopted by public transportation providers for agreements with human services agencies. One state, South Carolina, has decided to adopt a uniform bookkeeping system that covers both human service and public transportation. At the regional level, South Carolina's demonstration results reflect billing uniformity for both public transportation providers and human service agencies. State decisions on billing can be traced through the decision tree in the Bookkeeping Section of this manual.

Massachusetts

The Massachusetts analysis was directed at three programs that incur much of the human service transportation costs in the State. The three programs are the Medicaid Transportation Program administered by the Department of Public Welfare, the Home Care Program, and the Title III Program both administered by the Department of Elder Affairs. The following overview of the Medicaid program characterizes the current billing situation for these programs in Massachusetts.

First of all, it must be recognized that the existing approach is regulatory. It is based on operating and financial regulations. Secondly, the policy framework should be kept in mind. The policy of the Department of Public Welfare is for the recipient to use personal transportation whenever possible. If personal transportation is unavailable, the recipient is to use public transportation as available and suitable to medical condition. If such resources are unavailable or unsuitable, private transportation may be authorized. It is asummed that existing providers can provide the public with a quality service at a reasonable price. A new provider has to prove that the new service will not adversely affect existing providers regardless of quality of cost and effectiveness of service.

Many of the problems experienced stem from the limited definitions of transportation types. The Massachusetts Rate Setting Commission determines the maximum rate to be reimbursed across the state for various types of transportation, i.e., ambulance, chair car, taxi. However, public transportation is definitionally limited in the service picture with only licensed providers recognized as service providers. Consequently, costs for individualized medical transportation services can be double or triple those for comparable public transportation services for grouped trips. Rates for dial-a-ride service and chair car service reflect provider cost. Rates for taxis are based on usual and customary fee. The unit of service is defined in regulation and frequently is the trip or hours with rate modifications for the number of clients served. Other definitional problems exist.

The existing regulations are very unclear as to the distinctions, if any, between nonambulatory, dial-a-ride service and chair car service. A dial-a-ride operator providing nonambulatory service, i.e., chair car, must have a Class III ambulance license as must all chair car operators. From a service delivery standpoint, nonambulatory, dial-a-ride service and chair car service are identical. However, the two services have separate rate setting, authorization, and invoicing procedures. This separation has encouraged the use of chair car service on an exclusive-use, rather than shared-use, basis. Costs are correspondingly higher. The average chair car trip rate, $15.00 one-way trip, is over twice one dial-a-ride provider's negotiated rate. Also, definitions of service code divide a trip into component parts. Trips are reported in five mile segments, inconveniently reflecting the service unit negotiated.

Invoicing for medicaid transportation currently is based on one invoice for ambulatory clients and another for nonambulatory clients. The negative impact of regulation is apparent in that dial-a-ride providers serving both groups must use both forms. The increased paperwork serves to discourage provider efficiency. There are other data requirements and problems. For example, generally one invoice is used per client. Entries could be simplified by grouping them. Data required for client eligibility result in the drivers inefficiently checking eligibility, and location of the trip. Origin and destination entries are required and entered on the invoice related forms in long hand. Entries of service dates are needlessly repeated. If the provider serves multiple human service agencies, the invoicing process is further complicated by individualized reporting requirements. One such provider reportedly spends an hour of staff time per month per client invoicing for service. The cost allocation problems for Massachusetts providers, although specifically unaddressed, can be inferred from the multiple invoices identified.

A demonstration scenario formulates a method to make improvements. The demonstration scenario is based upon the concept of a regional broker that would be responsible for the central administration and coordination of transportation for all participating agencies within a regional service area. The regional broker will be responsible for the application and evaluation of a uniform cost determination methodology, establishment of equitable billing rates, invoicing, and assignment of transportation requests to appropriate providers. While the regional broker would have contracts with various state human service agencies, the day-to-day interface with the broker will be delegated to the local agencies responsible for the State programs within the service area. The proposed method replaces the individualized State regulatory approach currently used by the Massachusetts Rate Setting Commission. It offers a degree of local uniformity for human service agencies purchasing transportation. It also provides for the inclusion of public transportation providers at substantial cost savings to the human service programs purchasing service.

The recommended uniform cost determination methodology is one which will correlate costs to service characteristics. The structure lends itself to analysis of costs under changing levels of service and operating performance. The recommended cost determination methodology also is one where all variable and fixed costs of operation would be translated into hourly operating costs. This can be represented as follows: Total cost per hour equals variable cost per hour plus fixed costs divided by vehicle hours.

Once the total cost per hour is determined, it is relatively simple to calculate various billing rates. The three most common rate structures are the trip rate, hourly rate and mileage rate. The choice of a billing rate structure is to be based on a joint agreement of the local purchasing agency, the regional broker and the local transportation provider. A trip rate based on service definitions is recommended. Service definitions would include fixed route, shared ride and exclusive ride services.

As previously discussed, transportation providers rendering services to the Medicaid, Home Care, and Elder Affairs programs use a variety of invoices. Invoicing is based on careful bookkeeping, and characterized by repeated transactions. The proposed approach provides for uniform invoicing. Two levels of invoicing are proposed for consideration to simplify current practice. The first is a monthly summary approach to be used for programs under block grants. The second is a monthly report, based on provider logs, for individual clients. These detailed reports would meet the reporting requirements of Medicaid and similar categorical human service programs.

The current cost allocation process is complicated by the State's approach to costing and invoicing.

The recommended cost allocation methodology divides transportation into two broad categories of use:

1) Dedicated use of the vehicle for a fixed period of time by an agency.

2) Use of the vehicle for either shared-ride or exclusive-ride service.

Calculations under the recommended cost allocation methodology are relatively simple for a strictly dedicated use provider, more complex for a non-dedicated use provider or a system providing both types of service. Cost allocation in the more complex situation is based on vehicle utilization ratios. The accuracy of the ratio approach results in considerable cost avoidance for the provider.

Additional detail on the Massachusetts analysis can be obtained from the State report.

Michigan

The transportation rate setting, invoicing, and cost allocation procedures in Michigan were reviewed from the perspective of the Department of Social Services (DSS). It must be understood that the Michigan DSS, unlike most other Consortium State human service agencies, treats transportation as a component of social services. Where transportation is a component of another service, the cost of transportation is not accounted for as a separate budget item. Rather it is included in the cost of the service for which it is a component and not separately identified. This fact affects all issues in the billing payment area. The multitude of forms, the lack of uniform rates, and the failure to accumulate and report transportation costs all appear to stem from handling transportation as a component of service.

In Michigan, contracting for a client service, including transportation, is the responsibility of the local county office of the human service agency. It is the policy of the Michigan Department of Social Services that client transportation be provided by public transportation providers if the service is appropriate and efficient. The local county office then has the responsibility of determining client eligibility. As a purchaser of transportation, MDSS buys transportation in three ways:

1. The client is given a stipend to make the purchase of transportation. Individualized reports accumulate costs at the local level, but are rarely aggregated for the state.

2. Transportation for client trips which are not routine and recurring are purchased as needed; or

3. Purchase of service contracts are generally used for purchasing a social service of which transportation is a component. Payment is at a negotiated rate per unit of service. However, the transportation unit is usually unspecified in the contract.

Consequently, it is the county public transit operator who is responsible for deciding if the service can be provided and the rate to be charged.

Standard service definitions have not been developed. However, many purchasing agencies use the one way trip as the basic performance measure. Once the rate is established, the actual cost of providing the service is not a concern to the local purchaser. Also, the purchaser is not concerned with the provider's accounting records or financial audit trail. The purchaser's primary concerns are that the social service including transportation is provided at the agreed rate.

Although a complete transportation rate survey was not conducted, the areas and data reviewed demonstrated that transportation rates varied greatly and showed no trends or consistencies.

The Michigan Department of Social Services uses a multitude of forms and invoices for billing transportation. Primarily, the forms address the social services rendered and may capture some measure of the transportation service rendered. Documents dealing with fourteen programs were reviewed. The review was to determine the possibility of consolidating the forms and adapting them in some measure for automation.

The DSS billing forms and payment processes were not duplicative. A billing or invoice is an essential accounting control in the payment process. The number of different billing forms result from the variety of service programs operated by the DSS. This did not cause a large paperwork problem for any provider. The payment processes within the DSS are automated. Further automation to reduce administrative burdens of transportation providers was judged as requiring major revisions in the human service agency's direction. A major change in defining transportation as a service would have to be adopted.

The cost allocation issue was not analyzed because, as a component of service, transportation costs are not separated from other program costs. The feasibility of alternative cost allocation plans could be studied only if transportation costs are separately identified. However, it should be noted that Michigan providers did not report cost allocation problems in the survey results.

The Michigan human services model emphasizes decentralized local decision making for procuring transportation. The human service agency's role is neither regulatory, nor one of management or technical assistance. Rather the role is one of allocating resources for a variety of categorical programs. Individualized financial and operating reports result. The reports capture data on the primary social service purchased and rarely on the transportation service. Transportation cross comparisons are virtually impossible. Although the approach is workable, cost data and uniform cost control mechanisms are non-existent.

Considering the extensive county network of public transportation providers in the State, and the uniform accounting practices required by the Michigan Department of Transportation, the economic rationality of the rate setting process could be improved. Standardizing service definitions and adopting a unit of service definition for the human service contracts would channel the human service public transportation rate negotiations into an approach reflecting cost.

South Carolina

South Carolina has gained considerable demonstration experience dealing with a systematic approach to rates, invoicing, and cost allocation. The combination of legislated regional transportation operations and agreement of a mutual approach at the levels of the Executive

Office, the Department's of Transportation and Social Services provides the climate for the development work that is being done. In brief, a flexible billing system based on a Section 15 Chart of Accounts operated by regional providers is being modified to accommodate a zone fare approach. The zone fare test is anticipated to result in simplified billing arrangements for both the State and the provider.

As indicated in the bookkeeping section of this manual, the regional public transportation provider provides services to a combination of human service agencies based on a contract. The contract defines both transportation type and the unit of service. The definitional scheme and approach is somewhat similar to the one that has been proposed for Massachusetts, and has the same type flexibility. Essentially the definitional scheme relates transportation type of service to units. The idea is to cover provider operating costs. To accomplish this, a unit rate based on adjusted expenditures is divided by total units of service provided, and is added to a unit rate adjustment derived from experience. The definitional scheme is as follows:

Type of Service	Unit of Service
Fixed Route	Zone
Subscription	Passenger Mile or Passenger Trip
Demand Response	Passenger Mile or Passenger Trip
Charter	Vehicle Mile or Vehicle Hour

SERVICE TYPE - Refers to Charter (general, parcel, and meal delivery), Fixed Route, Demand Response, and Subscription (Regular, Group, and Long Trip) transportation services.

FIXED ROUTE - Service available on a permanent route with no deviations. The schedule is fixed and the vehicle stops only along the established route. All passengers must come to the regular bus stops. Unit of service is a trip or a zone.

SUBSCRIPTION SERVICE - A scheduled service along a variable route. The route and scheduling will vary as clients are added and subtracted. Service is generally door-to-door. Clients are picked up at many different locations and transported to a few destinations. Unit of service may be a passenger mile, a zone, or a passenger trip.

SUBSCRIPTION, GROUP - This service applies when three or more clients per a single contracting entity are assembled at a single pick-up point and included on a regular subscription route. Unit of service is a passenger mile or a zone.

SUBSCRIPTION, LONG TRIP - This service type applies on a subscription route when the passenger with the lowest number of passenger miles exceeds 30 passenger miles. The unit of service is a passenger mile and the rate will vary on a route by route basis.

DEMAND RESPONSE SERVICE - Routing and scheduling are flexible within a designated area and period. Advance notice to the provider of 24 hours is required. Service is generally door-to-door. Clients are picked up at many different locations and transported to many different destinations. Unit of service may be a passenger mile, a zone, or a passenger trip.

CHARTER SERVICE - Routing and scheduling are flexible based upon one week advance notice to the provider. Clients will generally be picked up at a single location and transported to a single destination. This is used when the sponsor requires exclusive use of the vehicle and no other service type applies. Unit of service is vehicle mile or vehicle hour.

UNIT OF SERVICE - Passenger mile, vehicle mile, vehicle hour, zone.

PASSENGER MILE - A unit of service equal to a single eligible recipient being transported one mile. Fractions are reported in tenths.

PASSENGER TRIP - A unit of service equal to a single one-way trip for one passenger.

VEHICLE HOUR - The time of one vehicle's use in transportation service for one hour.

VEHICLE MILE - The movement of one vehicle the distance of one mile in transportation service.

ZONE - Refers to an imaginary line which divides an area into geographic zones with an assigned charge for trips which originate and terminate completely within a zone and for trips between any pair of zones.

The zone fare approach is being introduced in one region on a demonstration basis. The approach is expected to reduce paper work, especially for the driver, provide valid client and service record keeping for the variety of categorical programs and the purchasing agency, and provide for the immediate cost determination of any trip. Rates are to be determined on the basis of the number of zones a client passenger passes through. Demonstration test results will compare the zone fare results to previous practices and document the extent of simplification.

Regardless of the type service and units being used, the South Carolina approach provides for a uniform invoice. The essential billing data requirements include the following elements:

1. Cost data from accounting system - Revenues and expenses.

2. Trip data - including trips/day/route or service zone.

3. Operating data including vehicle miles (deadhead miles separately), vehicle hours, passenger miles and passenger counts by client group.

The basic steps of the invoice form can be found in the **South Carolina Manual**. The single invoice recommended can be reviewed in Exhibit 1. The Manual also provides a listing of unallowable charges for the various human service categorical programs. Among the various records required, the zone fare demonstration should simplify the client service records being kept by dispatchers and drivers. These latter records are quite extensive and based on individual client passenger records.

South Carolina recommends that transportation providers develop a cost allocation plan. Basically, a provider's allocation plan covers all joint costs of the agency, as well as those costs associated with Federally sponsored programs. The cost allocation plans of all the

agencies rendering services to the provider, to the extent feasible, should be presented in a single document. The allocation plan contains the following:

1. The nature and extent of services provided and their relevance to the Federally sponsored programs;

2. The items of expenses to be incurred;

3. The methods to be used in distributing costs;

4. Identification of the departments rendering the service and receiving the service;

5. A concise but complete description of the accounting treatment of any under/over-billed costs for the fiscal period;

6. A concise but complete description of the method used to determine the billing rate or amount for each billed service;

7. An organizational chart showing all departments and units of the government even though they may not be shown as benefiting from the central service functions.

The major steps in developing the cost allocation plan are defined in the Manual.

EXHIBIT 1

RECOMMENDED TRANSPORTATION PROVIDER'S REQUEST FOR PAYMENT INVOICE

TO: (insert name, address and phone number of contracting entity)

FROM: (insert name, address and phone number of transportation provider)

INVOICE NO. ________

CONTRACT NO. ______________
AMOUNT OF CONTRACT __________
CONTRACT PERIOD: FROM_____ TO____
SOURCE OF FUNDS - (Program Title)

INVOICE FOR ________ ________
(month) (year)
TYPE OF PAYMENT
CASH ADVANCE ____
REIMBURSEMENT _____
FINAL INVOICE _____

MEMO: Month End Book Balance of Cash Account for this Contract as of ________ is $__________ .
(DATE) (AMOUNT)

Request for Funds: (Complete in Whole Dollars)

1. Transportation Costs: (Based on per unit basis for any of the following applicable types of service)

a.	No. of Passenger Miles or Trips	____@	$___/Passenger Mile (Subscription) or Trips	=	_____(C/M)
b.	No. of Zone Miles	____@	$ __/Zone (Fixed Route)	=	_____(C/M)
c.	No. of Passenger Miles or Trips	____@	$___/Passenger Mile (Demand Res.) or Trips	=	_____(C/M)
d.	No. of Vehicle Miles	____@	$___/Vehicle Miles (Charter)	=	_____(C/M)
e.	No. of Vehicle Hours	____@	$ __/Vehicle Hours (Charter)	=	_____(C/M)

2. YTD Adjustements to actual cost (if appl.) per type of service = _____(YTD)
= _____(YTD)

3. Advance Funding: Proj. Cash Requ. for Period _____ to _____ ___________

4. Total of Amounts in 1, 2, and 3 Above: ___________

5. Funds Received and Requested:
   a. Funds received to date: ________
   b. Funds requested but not yet received ________
   c. Total of 5a and 5b ___________

6. Net Amount to be Remitted - This Invoice (4 less 5) ___________

I certify that to the best of my knowledge and belief that the data reported above is correct and that all disbursements were made in accordance with the terms of this contract and that payment is due and has not been previously requested.

Type Name and Title of Official | Signature | Date

Essentially, the cost allocation procedure is based upon an identifiable unit of service that has a consistent cost applied to it. Each program pays for some share of the total units of service based upon the number of its clients, the distance, and frequency variables. As previously explained, the cost for a unit of service can vary from one quarter to another, or annually. But, the pre-arranged rate is held constant during a single quarter. Other methods for developing cost allocation plans are discussed in the South Carolina Manual.

North Carolina

In reviewing the North Carolina approach to billing, it must be kept in mind that a large number of the state operators are rural. Such local operations have originated with funding from a variety of human services programs. Most continue to provide service with substantial revenue from these categorical programs. Consequently, rate setting, invoicing, and cost allocation problems are common.

The North Carolina analysis of the billing area has lead to approaching the issue in a manner similar to South Carolina. However, the approach is one based on a demonstration project for a selected number of local operations, a standard bookkeeping system, and standard billing practices. Demonstration options for participants will include a billing approach and a single invoice. Service definitions, rate setting alternatives, and the cost allocations are similar to those defined by South Carolina. However, the design for implementation is different. South Carolina deals with regional providers, through financial technical assistance. North Carolina is dealing with smaller county and local systems through the same state role mechanisms. North Carolina intends to select a limited number of transportation providers to install microcomputer systems. The State will provide technical assistance at the local level.

SUMMARY OF IMPLEMENTATION

The billing examples provide several paths through the decision tree chart in the first section of this manual. Each of the examples is strongly related to, and based on the type of bookkeeping choice made by the state agencies. In other words, there is a relationship between the uniformity achieved in a bookkeeping system and in the billing system. The Massachusetts example depicts a human service approach with regional transportation providers. The transportation providers may or may not have adopted the Section 15 based chart of accounts. None the less, a uniformity is being sought for rate determination, elements of invoicing, and cost allocation. The role of the Medicaid agency is clear in the decision for uniformity. However, a broader approach covering the other human service agencies will require time, study, and effort. Any effort to obtain uniform operating and financial reports reflecting comparable data statewide, will be contingent upon the chart of account chosen.

The Michigan human service transportation approach treats the purchase of transportation as a component of other services rendered. The State's role has been one of financial monitoring for the individualized program areas. Although the rate structure could be more consistent, invoicing and cost allocation problems are not major concerns. The major issue is that comparative cost data is not available across program lines. Considering that a Section 15 based uniform chart of accounts is used by virtually every public transportation provider in the State, an approach of contracting on the basis of cost and obtaining uniform financial and operating reports is feasible. Such a decision by State's human service agencies would require considerable institutional change.

The South Carolina example demonstrates the mutual decision of both the State's public transportation agency and human service agency to adopt a uniform chart of accounts. The roles by the State agencies is translated into a consistent, uniform approach to rate determination, invoicing, and cost allocation at the regional level. Financial and operating reports are uniform and comparable. The approach taken by the regional provider is prescribed through the allocation of resources and technical assistance roles by the state agencies. Staged regional demonstrations will lead to a statewide system.

The North Carolina example is one where the State agencies pursue a role of coordination through the allocation of resources. Funds administered by the State to local and county services are subject to coordination requirements. North Carolina's approach is focused on introducing a Section 15 based chart of accounts in several localities in conjunction with the demonstration of management systems supported by microcomputers. The billing system arrangements are modeled after those developed by South Carolina. Localities serving as demonstration sites have the opportunity of using a predesigned, pretested billing package and modifying it to their requirements.

Although the billing examples did not include Iowa, a brief explanation here will further emphasize the point of the State's role in decision-making. The Iowa Department of Transportation has clearly decided to use a Section 15 based chart of accounts statewide. Hence, uniformity of financial and operating data has resulted for regional providers. With the exception of the State's aging agency which fully accepts the approach, similar decisions have not been made by other human service agencies. As such, segments of the system, such as rate determination, are used by human service agencies on an as needed, problem resolution basis. In other words, the benefit of some segments of the system and the data are becoming self evident.

The aforementioned case examples demonstrate the importance of the state's decision making role in selecting a uniform bookkeeping system. The Iowa, Massachusetts, Michigan and North Carolina examples are comparative counterpoints to the one of South Carolina. The decisions of state human service agencies or transportation departments alone, can simplify some areas of transportation accounting, including billing. The South Carolina example, where both the state human service agencies and the transportation agency selected a Section 15 based chart of accounts, demonstrate a high level of joint, state agency decision making.

BILLING BIBLIOGRAPHY

Massachusetts

Massachusetts' Demonstration to Simplify Transportation Accounting Requirements, Final Report; Analysis of Massachusetts Human Service Agency Transportation Program, Vol. I; Recommended Alternatives to Simplify Transportation Accounting Requirements, Vol. II, Ketron Inc., September 1982.

Michigan

"Michigan Analysis of Billing and Payment Issues", working paper by Thomas Bergeron, 1983; "Rate Setting: Purchase of Public Transportation by Human Service Agencies" working paper by Thomas Bergeron, 1982.

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STATE MECHANISMS FOR IMPROVING CASH FLOW TO TRANSPORTATION PROVIDERS

INTRODUCTION

This section depicts the varying cash flow mechanisms adopted by the Consortium States to expedite transportation provider payments.

Cash flow is a problem that transit providers have faced for many years. Much of the problem is inherent in the distribution of monies from the various transportation funding sources. Operating assistance subsidies are designed to help pay for expenses incurred. Therefore, there is an unavoidable delay from the time an expense is incurred to the time it is reimbursed. In addition, many small urban and rural operations are supported primarily by human service purchase of service contracts. Contractual agreements usually require payment on a monthly or quarterly basis throughout the contract year.

The cash flow problem was documented by the Consortium survey results which tested the following hypothesis:

- **Transportation providers have to wait too long to receive payment for services, resulting in cash flow problems.**

Provider responses were mixed concerning the problem of delayed payment for services delivered, with slightly less than half experiencing such a problem. Coordinated system providers (public transit operations with human service funding) were, though, much more likely to note that this was of particular concern to them.

When reviewing provider responses on the number of days it took between invoice submittal and payment, a majority of agencies indicated 30 days or less. It was not, however, unusual to find providers having to wait 60 to 180 days before receiving payment. Providers experiencing such delays were found in each state and dealt with various funding authorities.

STATE MODELS FOR IMPLEMENTATION

Cash flow is not an insurmountable problem. Five of the six Consortium States took steps to alleviate cash flow problems of transportation providers. An overview of the various state approaches is presented below.

Arkansas

The Arkansas advance payment plan allowed the Department of Human Services, Office of Title XX Services to advance one-twelfth of the total amount of a Title XX contract to the service provider on the effective date of the contract. The amount of the advance would then be adjusted out of the reimbursement actually earned. The funds were to be provided as interest free loans from the State Budget Revolving Fund to the Department of Human Services. The documentation requirements of this plan were extensive and the criteria to demonstrate need were stringent. The State of Arkansas received only one request for advance payment and the procedure was discontinued. The lack of response led Arkansas to conclude that cash flow was not a serious problem for transportation providers in the State.

Iowa

Legislation was enacted in Iowa to allow advance issuance of State transit funds to public transit funds to public transit systems. This was of particular importance to Iowa's regional

systems which did not have access to funds for borrowing. Advance payments must be placed in an interest-bearing account until they are expended. All income must be credited to the transit system as non-operating revenue. The Iowa Legislation is a good example of enabling legislation stated in simple language. The Iowa Department of Transportation also encourages transit managers to secure advances from local governments, social service agencies, and other third parties.

Massachusetts

Legislation in Massachusetts empowers all Regional Transit Authorities, regardless of size, to bond at municipal rates. At the beginning of each fiscal year, the authorities borrow, at these relatively low rates, the full anticipated cost of operation for the coming year. These funds are then invested in interest-bearing accounts. The authority then draws the money in the account during the year of operation and receives interest on the balance. In fiscal year 1981, Regional Transit Authorities were able to recoup 52% of their borrowing costs. However, it should be noted that in 1981, authorities were able to invest at uncharacteristically high interest rates. Changes in future interest rates will probably increase the authorities' cost of financing.

Michigan

Legislation in Michigan allows public transit providers to receive up to 20% of their State operating assistance in advance. Reconciliation is done at the close of the fiscal year, and is based on the Transportation Department's internal audit reviews. The Michigan Legislation is also written simply and concisely. In Michigan, many human service agencies use a procedure of prospective reimbursement. The human service agency allows an advance of one month's operating monies to transit providers. Reconciliations are done on a monthly basis, with future advances are adjusted according to actual expenditures.

South Carolina

In South Carolina a revolving fund was designed and implemented for Regional Transit Authorities which are supported primarily by contract reimbursement. The revolving fund is operated with State general funds. Each authority is limited to $60,000 maximum. The revolving fund is used to reimburse the authority for costs as they are incurred. Payments to an authority from users are then credited to the revolving fund as soon as they are received. Each authority must establish a separate bank account and general ledger for the revolving fund.

SUMMARY OF IMPLEMENTATION

As can be seen by the different approaches of five Consortium States, there is no single best answer to solving cash flow problems. In these States, the solutions include advance payment from user agencies, advance payment of State operating assistance, bonding authority, and a revolving loan fund. The important point is that the problem can be solved.

In developing a State-level solution to cash flow, the organizational approach to public transportation in the state must be considered. For example, the solution that works for a public transit provider might not be appropriate for a coordinated human service transit provider. Secondly, enabling legislation should be enacted to empower agencies to address the problem. The legislation should be written simply. It also should allow agencies to

establish rules and procedures. Thirdly, procedures, certification of need, and documentation requirements should not be unduly burdensome. Minimum requirements would include demonstration of need, assurance of repayment or recoupment, and an adequate audit trail. Lastly, the process should be as inexpensive as possible. The smaller the advance and the sooner it is recouped, the less costly advance financing will be.

DETAILS OF IMPLEMENTATION

The following descriptions are more detailed explanations of the state solutions summarized above. They include more description, legislative language, rules, procedures and documentation requirements.

Arkansas

The Arkansas Department of Human Services experimented with an advance payment plan for the purpose of assisting providers under contract with the State with periodic cash flow deficiencies due to start-up or the length of the reimbursement process. Results of the Consortium Survey confirmed that cash flow is a problem area in Arkansas.

On April 10, 1980, the Office of the Title XX Services of the Department of Human Services issued bulletin 80-3 regarding advance payment procedures. See the exhibit. The plan provided that one/twelfth of the total amount of a Title XX contract could be advanced a service provider on the effective date of the contract. The amount of the advance issued would then be adjusted out of the reimbursement actually earned.

Application Procedures

To be eligible for the advance payment an interested provider was required to submit an application to the managing Division/Office a minimum of 25 working days prior to the effective date of the contract. Included as part of the application were the following items:

1. Latest audited financial statement including balance sheet, statement of revenues and expenses, statement of changes in financial position, and retained earnings or fund balance statement.

2. Current statement of financial condition listing total assets, liability and equities.

3. A detailed projection on a month by month basis of working capital or cash requirements for the Title XX program.

4. One of the following:

    a. A cash forfeiture bond with good and solvent surety covering the amount of the loan which would be payable to the Department of Human Services.

    b. An irrevocable letter of credit extended by a bank payable to the Department of Human Services.

    c. A guarantee from the managing Division/Office to the Executive Director that the loan could be repaid from general revenues set aside for that purpose.

Approval Criteria

In order for an application to receive approval for advance payment the following criteria had to be met:

1. All required documentation must accompany the application.

2. The accompanying financial statements must demonstrate:

    a. Sound working capital position.

    b. A sound general financial position.

    c. A lack of significant contingent liabilities which may impair the financial position of the facility.

3. The projection of cash or working capital requirements must demonstrate a continued long term stability of cash flow and working capital in spite of the short term needs.

4. The provider must have been able to demonstrate need:

    a. The provider must demonstrate a cumulative need for at least 95% of the advance payment during the contract period, or.

    b. The provider must demonstrate a cumulative need for at least 80% of the advance payment during the first two months of operation.

Results

The advance payment plan proved to be a good idea that did not work. The State of Arkansas only received one request for advance payment. As a result of a lack of sufficient interest in the option, the procedure was discontinued and the issue judged not to be a serious problem for Arkansas providers. The Social Services bulletin outlining the procedures as well as a copy of the application form is provided for those who would like further information.

Arkansas Title XX Bulletin 80-3

A basic goal of the Office of Title XX Services has been to maximize the provision of services to eligible clients. As the time frame required for reimbursement has been a barrier, this Office has supported legislation providing financial relief to providers who would otherwise be unable to assume the financial responsibility involved in purchase of service contracting. To this end, the following language was included in Act 968 of 1979 which established the Office of Title XX Services:

> Section 5. Contract Services - Advance Payment. In order to provide effective purchased services to the needy citizens of Arkansas, the Director, Department of Human Services, is authorized to pay one-twelfth of the total amount of a Title XX Contract to the service provider on the effective date of the contract. The amount of the advance payment shall be adjusted out of the reimbursement actually earned by the provider during the contract period.

The above provision will be used only after the Director has conducted a study of the financial condition of the contracting agency to determine if an advance payment is necessary. If the advance is necessary, the Director shall forward his request and the reasons therefore to the Chief Fiscal Officer for approval.

If the request is approved, the Chief Fiscal Officer will loan the necessary amount to the appropriate fund accounts within the Department of Human Services from the State Budget Revolving Fund. The balance of any such loans made during the course of a fiscal year, however, will be recovered by the Department and repaid to the State Budget Revolving Fund by June 30 of that fiscal year.

Based upon this provision, the Office has developed the following procedures to implement the advance payment process. Under the provisions of the state Administrative Procedures Act, comments will be accepted on these proposed procedures until April 28, 1980. Comments must be in writing and submitted to the Office of Title XX Services, Suite 626, Donaghey Building, Little Rock, AR 72201. In the meantime, these procedures are being made available as interim procedures so that providers who wish to request an advance payment for contracts which will be renewed in the next few months will have a process to do so. Please note that, by law, an advance payment may be only at the beginning of the contract period.

General Provisions

The advance payment program as defined by Section 5 shall consist of interest free loans of state general revenues from a revolving loan account made to a service provider in anticipation of performance under the purchase of services contract. They are made to provide working capital to finance current operations as opposed to providing loan funds for capital expansion. These loans which can be made only at the beginning of a contract are made from the Office of Title XX Services' purchase of service account based upon a determination by the Executive Director of the Department of Human Services or his/her designated agent that the advance payment is necessary for the continuation of services.

Operational Provisions

The maximum advance payment allowable is 1/12 of the maximum Title XX liability. Since certified match or certified public expenditure contracts are reimbursed at the 75% rate, the maximum amount of the advance payment allowable is 1/16 (i.e., 1/12 X 3/4 = 1/16) of the maximum Title XX contract liability. All other Title XX funds up to the maximum contract liability less the advance payment are to be paid to the service provider on a monthly unit rate reimbursement basis.

Repayment of the advance payment shall begin at the nearer of the following events:

(a) At the end of the eleventh month of the state fiscal year (May), or

(b) At such time as the provider claims reimbursement for expenditures totaling eleven twelfths of the contract budget, or be made by the end or

(c) 30 days after termination of the contract if the adjusted time period (i.e., termination date plus 30 days) preceeds (a) or (b).

Repayment shall be accomplished as specified above by withholding an amount equal to the advance payment from provider reimbursement. If the reimbursement is insufficient to cover the full amount of the advance payment, cash payment by the provider in favor of the disbursing agency (currently the Social Services Division) will be necessary. All loans must be repaid on or before June 15 in order to repay the revolving fund by June 30.

Application

Application for the 1980-81 State Fiscal Year will be entertained at this time. A notice of intent to apply in letter form from the provider to the managing Division/Office should be submitted through the contract officer at the time of initiating the negotiation process for the Title XX contracting. In order for the application to receive the required approvals, application must be made a minimum of 25 working days prior to the effective date of the contract. To account for a possible request for additional information or adjustment of the application prior to approval, an additional 15 working days should be allowed.

Application for advance payment shall be submitted to the managing Division/Office. The managing Division/Office shall have 10 working days from receipt of a fully completed application to approve or disapprove the application. If approved, the application shall be routed to the Office of Title XX Services for compliance review and approval. The Office of Title XX Services shall have 5 working days from receipt of a fully completed application to approve or disapprove the application. If approval is granted, the application shall be submitted to the Director of the Department of Human Services for final review and approval. If approval is granted, the Chief Fiscal Officer of the State of Arkansas, the managing Division/Office and Social Services Accounting Section shall be notified in writing so that payment of the advance can be processed. The managing Division/Office shall notify the provider.

If the Division/Office disapproves the application, the Office of Title XX Services shall be notified of the reasons for the disapproval. If the Office of Title XX Services disapproves the application for failure to supply sufficient information and/or documentation, the application shall be returned to the Division/Office with a written explanation for the rejection. In case of rejection by either the managing Division/Office or the Office of Title XX Services, the provider may appeal to the Executive Director of the Department of Human Services.

Included as a part of the application are the following items:

1. Latest audited financial statements including balance sheet, statement of revenues and expenses, statement of changes in financial position, retained earnings or fund balance statement;

2. Current statement of financial condition listing total assets, liabilities and equities;

3. A detailed projection on a month by month basis working capital or cash requirements for the Title XX program;

4. One of the following is required:

    a. A cash forfeiture bond with good and solvent surety covering the amount of the loan which will be payable to the Department of Human Services on (1) June 15

or (2) 30 days after termination of the contract if (2) precedes (1) in case of *default by the provider or;

b. An irrevocable letter of credit extended by a bank payable to the Department of Human Services on (1) June 15 or (2) 30 days after termination of the contract if (2) precedes (1) in case of *default by the provider or;

c. A guarantee from the managing Division/Office to the Executive Director that the loan can be repaid from general revenues set aside for that purpose. Such a guarantee would have to be requested in writing by the provider from the managing Division/Office. The decision of the Division/Office concerning such a guarantee is final and cannot be appealed.

*For purposes of this document, default shall be defined as failure to repay the loan (1) by June 15 or (2) 30 days after termination of the contract if (2) precedes (1).

The latest audited financial statements, the current statement of financial condition and the projection of working capital requirements are required by Section 5 of Act 968 of 1979. This Section requires that the Executive Director "conduct a study of the financial condition of the contracting agency to determine if an advance payment is necessary." The security requirements are necessary to protect state general revenues on loan and the operating funds of the various Division/Office against failure of the provider to repay the loan by June 15.

All contract financing is subject to the availability of funds in the State Budget Revolving Fund and the managing Division/Office's ability to borrow such funds.

Donor Fund Requirement

Donor funds in the appropriate amount must be received by the disbursing agency (currently the Social Services Division) before the loan can be processed. This money will be restricted to providing donor funds for repayment of the loan and will not be used to match monthly billings.

State Fiscal Year Requirements

Due to the requirements of Section 5 of Act 968 of 1979 that advance payment coincide with the beginning of the contract period and that all loans must be repaid by the end of the State Fiscal Year, it is necessary that the period of contract performance for all applicants be adjusted to coincide with the State Fiscal Year (i.e., July 1 - June 30). This will allow the recipient of the loan to obtain the maximum advantage from the use of loan funds.

Notice to State Agencies

The execution of loans to providers through the advance payment program will create a liability against the state operational fund of the managing Division/Office to the State Revolving fund. Even though Section 5 of Act 968 allows for unlimited loans to be made, a state agency will have to determine the level of outstanding liabilities against its operational fund that it can manage. Default on a loan by a provider and possible difficulties in recouping the money through a security arrangement may result in the agency's operation fund being deficient to meet current maintenance and operational expenditures and agency payrolls.

Criteria for Approval of Advance Payments

In order for an application to receive approval for advance payment, the following criteria must be met:

1. All required documentation must accompany the application.

2. The accompanying financial statements must demonstrate: (a) a sound working capital position (i.e., excess of current assets over current liabilities), (b) a sound general financial position (assets in excess of liabilities and positive net worth or fund balances), and (c) a lack of significant contingent liabilities which may impair the financial position of the facility.

3. The projection of cash or working capital requirements must demonstrate: (a) continued long term stability of cash flow and working capital position in spite of short term needs. The purposes of the advance payment is to assist providers with periodic cash flow deficiencies due to start-up or the length of the reimbursement process. The projection of cash flow requirements must show that the provider will not suffer cash flow deficiencies in the fourth quarter of the State Fiscal Year. If there are deficiencies during the fourth quarter, repayment of the loan may be impaired.

   Demonstration of Need: (1) the provider must demonstrate a cumulative need for at least 95% of the advance payment during the contract period or (2) a cumulative need for at least 80% of the advance payment during the first 2 months of operations.

APPLICATION FORM

____ ____________________

Contract Name | Contract Number

____ ____________________

Representative Name and Title | Contract Amount

Requests advance payment in the amount of $ ________________ (not to exceed 1/12 of the contract amount or 1/16 for certified match or certified public expenditure contracts) to be repaid in the following manner:

a. At the end of the eleventh month of the state fiscal year (May), or
b. At such time as the provider claims reimbursement for expenditures totaling eleven twelfths of the contract budget, or
c. 30 days after termination of the contract if the adjusted time period (i.e., termination date plus 30 days) preceeds (a) or (b).

Repayment shall be accomplished as specified above by withholding an amount equal to the advance payment from provider reimbursement. If the reimbursement is insufficient to cover the full amount of the advance payment, cash payment by the provider in favor of the Department of Human Services will be necessary. All loans must be repaid on or before June 15.

Included as a part of this application are the following items of documentation. Numbers 1, 2, and 3 are required items of documentation. Check one of the items under number 4 which supports the type of security offered.

1. Latest audited financial statements including balance sheet, statement of revenues and expenses, statement of changes in financial position, retained earnings or fund balance statement;

2. Current statement of financial condition listing total assets, liabilities and equities;

3. A detailed projection on a month by month basis of working capital requirements for the Title XX program;

4. a. __________ A cash forfeiture bond covering the amount of the loan which will be payable to the Department of Human Services on the loan termination date in case of default by the provider or;

   b. __________ An irrevocable letter of credit extended by a bank payable to the Department of Human Services guaranteeing payment of the loan.

   c. __________ A guarantee from the managing Division/Office to the Executive Director that the loan can be repaid from general revenues set aside for that purpose.

DHS - 330 (4-10-80)

APPLICATION SIGNATURE FORM

Undersigned authorizes the Department of Human Services to obtain such information as may be required concerning the statements made in this application and agree that the application shall remain the property of the Department of Human Services, whether or not the request is granted. It is understood that if the Department of Human Services approves the request, a copy of the appropriate form(s) stating the terms of the agreement(s) with the Department of Human Services will be furnished to the applicant. If we fail to advise the Department of Human Services of any objection to the agreement(s) and utilize the advance payment the terms of the agreement will be binding on us. We certify that the foregoing statements are true in every respect to the best of my/our knowledge and belief, and are made for the purpose of obtaining advance payment under the Title XX program.

____
Provider

BY: ______________________________

______________________________ ____________________
Title Date

DHS-333

4/10/80

STATEMENT OF FINANCIAL CONDITION FORM

To: Department of Human Services

Provider Name ______________________________

Provider Address ______________________________ Contract Number ______________

______________________________ Contract Period ______________

For the purpose of procuring contract financing in any form whatsoever with the above named Department for claims and demands against the undersigned, the undersigned submits the following as being a true and accurate statement of my financial condition on the following date, and agree that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against it, the undersigned will immediately and without delay notify the said Department of Human Services, and unless the Department of Human Services is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned as of the close of business.

(Month) ______________________________ (Day) ______________ 19____

ASSETS		LIABILITIES	
Cash on hand and in Banks	$	Notes payable to Banks	$
U.S. Gov. Securities - see schedule	$	Secured (ILD)	$
Listed Securities - see schedule	$	Unsecured (Personal)	$
Unlisted Securities - see schedule	$	Notes payable to relatives	$
Accounts and Notes Receivable Due from relatives and friends	$	Notes payable to others	$
		Accounts and bills due	$
Accounts and Notes Receivable Due from others - ccod	$	Accrued taxes and interest	$
		Other unpaid taxes	$
Accounts and Notes Receivable Doubtful	$	Mortgages payable on Real Estate - see schedule	$
Real Estate owned - see schedule	$	Chattel Mortgages and other Liens payable	$
Automobiles	$		
Personal property	$	Other debts - itemize	
Other assets - itemize			
		TOTAL LIABILITIES	$
		NET WORTH	$
TOTAL ASSETS		TOTAL LIAB. & NET WORTH	$

CONTINGENT LIABILITIES		GENERAL INFORMATION
As endorser or comaker	$	Are any assets pleaded?
On leases or contracts	$	Are you defendant in any Suits or legal actions?
Legal Claims	$	
Provision for Federal Income Taxes		bank accounts carried at
Other special debt - specify		Have you ever taken bankruptcy?
		Explain:

DHS-331
4-10-80

Note: If the above financial format is not applicable to your facility or program, please attach a current balance sheet in appropriate format as a part of this form.

Iowa DOT - Advance Funding Process

Cash flow problems have been a continuing source of aggravation for State-funded transit systems since State transit assistance began. This problem was especially acute for regional transit systems which did not have access to large amounts of funds from which to borrow (e.g., local governments, advanced client funds, etc.) while waiting for reimbursement from the Department of Transportation, Urban Mass Transportation Administration or the Federal Highway Administration. Even the larger systems had faced cash flow crises because of the grant/reimbursement process established by most public transit funding agencies.

Chronology

The following events denote the process of solving the cash flow crisis:

October, 1978 -	Select transit managers met with the new public transit division director and deputy director to discuss problems which needed attention. "Cash flow" was the first problem to be discussed.
February, 1979	Legislative language was drafted to allow advance funding.
July, 1979	Detail funding advance mechanisms were drafted for review by transit managers.
August, 1979	Comments were reviewed and final rules drafted.
October, 1979	Rules adopted on an emergency basis.
November, 1979	First advance funding request was made and approved.
July, 1980	Standard language was made part of the Iowa state transit assistance contracts.
October, 1980	Standard year-end reconciliation procedures were adopted.

Legislation

The legislation enacted provides for advance funding as follows: "Notwithstanding chapter eight (8) of the Code, it is the intent of the general assembly that funds appropriated for public transit purposes to implement a state assistance plan shall be allocated in whole or in part to a public transit system prior to the time actual expenditures are incurred if the allocation is first approved by the state department of transportation. A public transit system shall make application for advance allocations to the state department of transportation specifically stating the reasons why an advance allocation is required and this allocation shall be included in the total to be audited."

These procedures appear to be working well. "Cash flow" no longer is a priority issue or problem of the transit systems.

Advances From Third Parties

In addition to this advance funding process, Iowa DOT has also encouraged transit managers to secure advances from local governments, social service agencies and other third parties. Iowa DOT has also encouraged larger systems eligible for Section 5, UMTA funding to use the UMTA letter-of-credit to speed reimbursement, and has asked managers to apply for Section 5 funds as soon as possible during the funding cycle.

Rules dealing with the Iowa DOT advance funding process follow for those who would like additional information.

TRANSPORTATION DEPARTMENT (820)

09 PUBLIC TRANSIT DIVISION

Pursuant to the authority of section 307.10 of the Code, the following rules are adopted.

ARTICLE B

FINANCIAL ASSISTANCE PROGRAM

CHAPTER 2

ADVANCE ALLOCATIONS

OF STATE TRANSIT ASSISTANCE FUNDING

820-- 09,B 2.1(307) **Scope of chapter.** This chapter shall apply only to those transit systems eligible for, and having or proposing to have a "Joint Participation Agreement" in force with the Iowa Department of Transportation for state transit assistance funding as set forth in rules 820-- 09,B chapter 1, IAC. This chapter implements provisions for advance allocations of state transit assistancce funding as set forth by the Sixty-eighth General Assembly House File 738, section 4, subsection 3, paragraph "a". The requirements for the award of state funds for transit assistance and subsequent procedures are found in rules 820-- 09,B chapter 1, IAC.

820--(09,B)2.2(307) **Basic types of advance allocations.** Two basic types of advance allocations shall be available to transit systems eligible for state transit assistance:

2.2(1) Allocation of state transit assistance to a transit system prior to the time actual expenditures are incurred such that one-fourth (or twenty-five percent) of the total "Joint Participation Agreement" amount is paid to the system prior to or during each successive three month period (which end September 30, December 31, March 31, and June 30) starting on the execution date of the "Joint Participation Agreement"; or

2.2(2) Allocation of state transit assistance to a transit system prior to the time actual expenditures are incurred such that an amount to be denoted in the state transit assistance "Joint Participation Agreement" or "Joint Participation Agreement" amendment is paid to the system prior to or during each successive three month period (which end September 30, December 31, March 31, and June 30) starting on the execution date of the "Joint Participation Agreement".

820--(09,B)2.3(307) **Application for advance allocations.**

2.3(1) Transit systems having or proposing to have a "Joint Participation Agreement" with the Iowa department of transportation for state transit assistance funding may make written application for advance allocations of the "Joint Participation Agreement" amount. Such application shall be directed to:

Iowa Department of Transportation
Public Transit Division
5268 N.W. Second Avenue
Des Moines, Iowa 50313

2.3(2) Transit systems applying for state transit assistance funding, pursuant to 820--(09,B) chapter 1, IAC, may make written application for advance allocations of proposed or existing "Joint Participation Agreement" amount as part of the application for state transit assistance.

2.3(3) No application for advance allocation pursuant to subrule 2.2(1) of this chapter of rules (i.e., twenty-five percent per quarter) shall be complete without:

a. The name of the transit system.

b. A specific statement of the reasons why an advance allocation is required by the transit system.

c. A statement from the transit system which indicates the specific existing or proposed "Joint Participation Agreement" from which advance allocations are to be derived.

d. A statement from the transit system which indicates that the contract officer has read these administrative rules and certifies that he or she shall comply with them.

e. The signature of the contract officer of the transit system, and the date of signature.

2.3(4) No application for advance allocations pursuant to subrule 2.2(2) of this chapter of rules (i.e., varied allocations per quarter) shall be complete without:

a. The name of the transit system.

b. A specific and detailed statement of the reasons why an advance allocation is required by the transit system.

c. A statement from the transit system which indicates the specific existing or proposed "Joint Participation Agreement" from which advance allocations are to be derived.

d. A detailed transit system cash flow analysis projected for the performance period of the "Joint Participation Agreement."

e. A statement denoting the proposed advance allocations for each quarter including the dollar amounts and percentages of each quarter's allocation to the total "Joint Participation Agreement" amount.

f. A statement of justification for the varied allocation amounts requested.

g. A statement from the transit system which indicates that the contract officer has read these administrative rules and certifies that he or she shall comply with them.

h. The signature of the contract officer of the transit system, and the date of the signature.

820--(09,B)2.4(307) **Application approval.** The public transit division of the Iowa Department of Transportation shall review all applications for advance allocations of state transit assistance. It shall also approve, disapprove or defer all such applications. Provisions of applications which are approved shall be written into and made a part of the transit system's state transit assistance "Joint Participation Agreement", if it is in effect, or written into such "Joint Participation Agreement" when awarded by the department pursuant to rules 820--(09,B) chapter 1, IAC. The transit sytem shall be so notified of such action. Transit systems whose applications for advance allocations are disapproved or deferred shall be so notified, including the reason(s) for such actions.

820--(09,B)2.5(307) **Consideration in determining the approval of advance allocation application.**

The public transit division shall give consideration to the following items in determining the approval, disapproval or deferment of advance allocation applications:

2.5(1) Need of the transit sytem to receive advance allocations from the state transit assistance "Joint Participation Agreement", pursuance to subrule 2.3(3) or 2.3(4) of this chapter of rules.

2.5(2) Other justifications and analysis, pursuant to subrule 2.3(3) or 2.3(4) of this chapter of rules.

2.5(3) Previous experience of the public transit division in dealing with the transit system making application including but not limited to the following:

a. Timeliness of contract and application materials, as assessed by the public transit division.

b. Fiscal management capability of the transit system, as assessed by the public transit division.

820--(09,B)2.6(307) **Payment of advance allocations.** Payment of advance allocations of state transit assistance shall be made to transit systems in the amount approved by the public transit division and incorporated into the state assistance "Joint Participation Agreements" of those transit systems. Payment of each quarterly advance allocation shall be made prior to, or during the appropriate three-month period.

820--(09,B)2.7(307) **Reports, and suspension and termination of allocations.**

2.7(1) Transit systems receiving advance allocations shall provide quarterly and end-of-the-year financial and statistical reports to the public transit division in the manner and within the time limits described in the state transit assistance "Joint Participation Agreements". These reports shall be made on forms prescribed for that purpose and furnished to the transit systems by the public transit division.

2.7(2) Failure to file quarterly and end-of-the-year financial and statistical reports by any transit system with the public transit division in the manner and with the time limits described in the state transit assistance "Joint Participation Agreement" shall be cause for suspension or termination of those provisions of the "Joint Participation Agreement", and therefore, suspension or termination of advance allocation payments made by the Iowa Department of Transportation. The public transit division shall notify any transit system of such actions.

2.7(3) Payment of eligible "Joint Participation Agreement" expenses to a transit system that has had advance allocation contract provisions suspended or terminated by the public transit division shall be by the method of reimbursement payments as described in the state assistance "Joint Participation Agreements".

820--(09,B)2.8(307) **Income derived from interest-bearing accounts and investments.**

2.8(1) Any transit system that receives advance allocation payments shall deposit these funds in a separately identified interest-bearing account until such time as they are expended on costs incurred by the transit system.

2.8(2) All income derived from interest-bearing accounts and investments shall be credited to the transit system and its transit accounts as a non-operating or non-transportation revenue.

820--(09,B)2.9(307) **"Joint Participation Agreement" close and audits.**

2.9(1) Each transit system receiving advance allocation payments shall, as part of the end-of-the-year financial and statistical report, calculate the total "Joint Participation Agreement" amount eligible for payment by the Iowa Department of Transportation within the limits stated in the state transit assistance "Joint Participation Agreement", and in consultation with the public transit division. This eligible "Joint Participation Agreement" amount shall be compared to the total amount of the advance allocations for that "Joint Participation Agreement". If the advance allocations total is greater than the eligible "Joint Participation Agreement" amount, the transit system must repay the Iowa Department of Transportation the difference between the total of advance allocations for that

"Joint Participation Agreement" and the total eligible "Joint Participation Agreement" amount. This repayment must accompany the end-of-the-year financial and statistical report. Failure to make this repayment shall be grounds for:

a. Termination of other transit assistance "Joint Participation Agreement" with that transit system,

b. Suspension or termination of further advance allocations made on future "Joint Participation Agreements",

c. Reduction of Iowa Department of Transportation participation in existing or future "Joint Participation Agreements", or

d. Reducing future "Joint Participation Agreement" reimbursement requests of the transit system by an amount not to exceed the unpaid debt owed the Iowa Department of Transportation and crediting the outstanding debt of the project being closed out.

2.9(2) The public transit division may institute any such action(s) as stated in subrule 2.9(1) above and shall notify any transit system of such action taken against them.

2.9(3) After the repayment and end-of-the-year financial and statistical reports are submitted, or after the public transit division has instituted any action(s) for failure to do so, the Iowa Department of Transportation shall audit the transit system's books, accounts, records and other material and information necessary to determine "Joint Participation Agreement" compliance. The advance allocations paid to the transit system shall be taken into consideration and made part of the amount to be audited.

These rules are intended to implement section 307.25 of the Code and House File 738 of the Sixty-eighth General Assembly.

Massachusetts: A Regional Cash Flow Model

The following is a brief summary of cash flow issues for regional transit authorities (RTA's) in Massachusetts. Funding sources included in this review are U.S.D.O.T. Section 5, Section 18, state contract assistance funding to RTA's (Chapter 161B), and local city and town funding. Department of Health and Human Service funding such as Social Services, Medicaid, and Aging, etc., are not evaluated. Finances of the Massachusetts Bay Transportation Authority (MBTA) are also excluded from this analysis. The MBTA receives approximately 10% of its operating budget from Federal sources and is very different in scale and operation than the regional transit authorities in the State.

Outside of the metropolitan Boston area, fourteen (14) regional transit authorities have been established. All urbanized areas of the State are included in this network. Of these programs, five combine urban and rural services. Four are entirely rural, and five are entirely urban in nature.

Federal funding for these programs comprises between 30% and 50% of their net cost of service. Larger, more urban authorities receive a smaller percentage of federal funding as the result of federal Section 5 allocation procedures and limited federal funding. After federal funding is applied, the state (Chapter 161B) and local communities split the remaining deficit equally.

Payment to the transit authorities is made as follows: (1) Section 5 funding is a cash-system. As soon as the UMTA approves the project and contracts are signed, authorities can draw for expenses incurred up to the day of billing. In actual practice, the first billing is made after approximately 6 months of operation and requisitions are then submitted on a monthly basis; (2) Section 18 payments are made on a quarterly basis. The final quarterly payment reconciles actual costs against budget's projections; (3) State Chapter 161B funding is made only after an audit for the entire year's operation is submitted to the state at the end of the fiscal year. Including the time required to complete the audit, to review the audit, and to process payment, authorities typically receive reimbursement 18 months after the first day of operation; (4) The local share is paid to the authorities by the state at the same time that state reimbursement is made. Cities and towns are then assessed this amount in their tax bills in the fiscal year following the year of operation.

On the surface, this combination of payment time lags would indicate a difficult cash flow situation. Each authority is required to finance their Federal share for four to seven months and their state and local share for 18 months. In practice, each transit authority undertakes a procedure of borrowing which allows for a fluid cash situation and an investment of borrowed funding which helps to reduce the cost of financing.

All authorities, regardless of their size, are empowered by legislation to bond at municipal rates. At the beginning of each fiscal year, the authorities will borrow, at these relatively low rates, the full anticipated cost of operation for the coming year. This money can then be invested in interest-bearing accounts such as savings accounts, certificates of deposit, and money market funds. The RTA draws down the money in the account during the year of operation, and receives interest on the balance.

The chart on the following page provides a quantitative summary of this situation. For each transit authority, the total fiscal year '81 budget, the cost of borrowing, and the return on investment is given. Based on these figures, it can be seen that, statewide, reinvestment

has allowed the RTA's to recoup 52% of their borrowing costs. The net cost of financing the services is 2.4% of the total budget. It should be pointed out that, due to economic conditions and fluctuations in interest rates through 1981, recent figures represent a period of time when authorities were able to borrow at a low rate and invest at an uncharacteristically high rate. More recent interest rates are causing the cost of financing to increase.

Although cash flow has not threatened the actual operation of transportation (as it does in many human service programs), there is a considerable cost involved. This cost is passed on to Federal grants, the State, and local communities. Recently, action has been initiated to further reduce financing costs. Proposals are being developed to pay a portion of state and local reimbursements based on preliminary estimates rather than completed audits. Final reconciliation of state and local shares would be made based on a complete audit.

QUANTITATIVE SUMMARY

RTA	Cost of Service*		Interest Paid Out	Interest Received on Investments	Differences + or (-)
BRTA	1,325,963		50,796	23,938	(26,858)
BAT	4,323,895		259,632	61,600	(198,032)
CATA	375,926		23,659	31,607	7,948
CCRTA	1,454,193		126,324	20,209	(106,115)
FRTA	312,846		11,308	137	(11,171)
GATRA	1,900,724		32,612	11,444	(21,168)
GMRTA	624,823		0	6,500	6,500
LRTA	2,819,646		134,458	190,922	56,464
MRTA	1,886,027		16,087	7,354	(8,733)
MVRTA	3,948,468 2,501,245	(Budget) (Actual)	71,837	3,084	(68,753)
PVTA	8,232,609		395,584	141,061	(254,523)
SRTA	4,213,209		302,797	136,191	(166,606)
WRTA	4,000,072 3,905,081	(Budget) (Actual)	285,998	254,924	(31,074)
VTA	92,267		2,933	2,404	(529)
TOTAL	33,968,454 35,510,668	(Actual) (Budget)	1,714,025	891,375	(822,650)

*Net Cost of Service as stated in FY81 Audits.

Michigan Prospective Reimbursement

Transportation providers in the State of Michigan have not experienced serious cash flow problems. This is primarily due to a prospective reimbursement procedure. For State human service agencies, the procedure is often part of their contractual agreement with providers. Some human services programs allow an advance of one month's operating monies to providers. Reconciliations are done on a monthly basis. Future advances are adjusted according to actual expenditures. This procedure has passive approval of the State's central accounting office for two reasons. First, it is not expressly prohibited by Michigan law. Second, it adds an element of control. Prior to using prospective reimbursement, payments to providers were made quickly to avoid cash flow problems and there was little review of expenditures. Prospective reimbursement allows time for a more detailed review. Discussion with human services agencies staff and results of the Carter Goble Survey, both support that cash flow is not a serious problem in Michigan. Cash flow problems that do occur are generally the result of errors in filling out reimbursement documents. For example, volunteers often fill out their own documents and errors occur because they are unfamiliar with state agency accounting requirements.

Advance Funding

The Michigan Department of Transportation (MDOT) allows providers to receive up to 20 percent of their State operating assistance in advance. Requests for an operating assistance advance are made by the transit property and submitted with justification to MDOT for fiscal review and approval. Reconciliation is done at the close of the fiscal year and is based on the Department's internal audit reviews. The capital assistance program in MDOT evidences a trouble free provider payment attributable to advance grant preparation for capital items and a timely payment process. Capital grants are developed eighteen months in advance and include such contingency provisions as back-up vehicles and equipment. Cash flow is not an issue for the capital portion of the program. Legislation outlining the advance process follows.

Legislation

Michigan transportation legislation provides for: "An eligible authority or eligible governmental agency may receive an advance of funds for the purposes of subparagraph (iii), upon the written determination by the state transportation department that the advance is necessary and appropriate. The state transportation department may impose terms and conditions for the advances considered necessary for efficient and effective use of state funds. The total amount of an advance shall not exceed 20% of the annual distribution for operating assistance to the eligible authority or eligible governmental agency. The advances of state funds shall be deducted from the state fiscal year-end distribution of funds for operating assistance for which the eligible authority or eligible governmental agency is eligible."

Procedures - Cash Advance

The following must be submitted by the provider to the Michigan Department of Transportation are necessary in processing cash advance on formula operating assistance.

1. A letter of request for the cash advance from the eligible authority or eligible governmental agency. The letter should indicate the reason for this request.

2. Resolution - The resolution solution should indicate the amount the eligible authority or eligible agency applied for, and the signature of the eligible authority or eligible agency.

3. Financial Data Statements:

   a. An audited financial statement for the most recent 12 months.

   b. A statement of cash on hand, the date this request was made.

   c. Cash flow projection for the next 12 months.

The above information is submitted to the Michigan Department of Transportation. In turn, they prepare an "Advance Payment of Michigan Comprehensive Transportation Funds" and "State Administrative Board - Request for Approval." A copy of financial data statements is reviewed by the Department's auditor. A copy of the various documents is also reviewed by the Department's Contract Office.

South Carolina - Revolving Fund

One of the most severe problems faced by many transportation systems in South Carolina, particularly those operating in rural and small communities and whose operations are supported almost exclusively by way of "contract arrangements", is cash flow. Jon E. Burkhardt, a transportation consultant, related this point at the Fourth National Conference on Rural Public Transportation (June 1979) with emphasis on the Section 147 program. Burkhardt observed:

> "some of these projects had no cash at all and so to operate on any form of reimbursement was a hardship for them."

There is a great deal of validity in what Burkhardt offers in his observation. It has been found in South Carolina that the cash flow problem goes deeper than hardship caused to the transportation provider. In fact, the cash flow dilemma of the transportation provider proves to have a spiraling effect. Should reimbursement payments to transportation providers be made after thirty-days or so, there is an equal hardship placed upon the creditors used by the transportation providers for sustainment of the local transportation system during the interim reimbursement period.

It has also been found in South Carolina that the problem of cash flow reaches beyond the now defunct Section 147 program. Following an informal investigation and study by the South Carolina Interagency Council on Public Transportation of major state agency methods on reimbursement procedures (including Title XX, XIX, III-B, CETA, Developmental Disabilities, CSA, etc.) for transportation, the following observation was made:

> "...the lag between a transportation provider incurring the cost of transporting a human service client and the transportation provider being reimbursed by the client's sponsoring agency usually ranges between six and ten weeks, which causes the transportation provider (and his creditors) severe cash flow problems."

As a result, a revolving fund was designed and implemented by the State with the Santee Wateree and Pee Dee RTA's in order to relieve their cash flow problems. In addition, the Interagency Council, on the recommendation of the Department of Social Services, voted unanimously in favor of a $360,000 revolving fund exclusively for expediting reimbursement payments to transportation providers under the Title XX program on a statewide basis. Unfortunately, the Title XX revolving fund never became a reality: However, some improvements were noted in the reimbursement procedures for transportation providers in this program area.

At the time of writing this manual, one additional revolving fund account has been established at the provider level with the Beaufort-Jasper RTA, bringing the number of active local funds to a total of three. The information that follows outlines in summary form key features of South Carolina Revolving Fund. More detailed information in the form of a "Diagrammatic Synopsis of the Revolving Fund Development and Operating Procedures" is available on request from project management or the South Carolina project representatives.

It is important to note that, having implemented this concept two years ago, all indications point to the fact that recipient providers are very pleased with the arrangement. The State is also satisfied with the provider's performance and handling of the public funds involved. Key features of the fund are:

- Operated exclusively with State general funds
- Limited presently to $60,000 maximum
- State/local written agreement
- "Permanent" fund for transportation provider
- Used for collectible costs when incurred
- Not a subsidy: Nor for offsetting uncollectible or other expenses
- Quick, one-time "draw-down" from the State
- Requires consolidated supportive documentation
- Conditional "repayment" to State
- Special revolving fund bank account
- Signature authority control for check writing
- Annual progress report from provider to the State
- Annual progress report from the State to State Auditor
- State special and annual audits

A sample agreement is provided for those desiring further detail.

SAMPLE AGREEMENT

Between

Santee Wateree Regional Transportation Authority (SWRTA)

and

South Carolina Department of Highways and Public Transportation (DHPT)

Relative to a revolving fund for financial assistance to SWRTA.

By this Agreement dated this 7th day of September 1979, the above named parties agree as follows:

A. PREAMBLE:

SWRTA operates a public transportation system in the Santee-Lynches Region. Most of the passengers transported are clients of human service agencies and do not pay fares when they are transported. Rather, SWRTA is reimbursed for the costs incurred in transporting clients by their sponsoring agencies, on the basis of periodic billings. The lag between SWRTA's incurring the cost of transporting a human service client and its being reimbursed by his sponsoring agency usually ranges between six and ten weeks, which causes SWRTA (and its creditors) severe cash flow problems.

In order to relieve SWRTA's cash flow problems, the DHPT adopted a Pilot Project Budget for utilizing funds appropriated by Section 117 of the FY 1979-80 General Appropriation Act which provides for $60,000 to be used as a revolving fund for financial assistance to SWRTA.

B. LIMIT AND PURPOSE:

The total to be made available to the SWRTA Revolving Fund by DHPT under provisions of this Agreement shall not exceed $60,000. The amount made available shall be used only as a revolving fund to reimburse SWRTA for collectible transportation costs as they are incurred. Sponsoring agency payments shall be credited to the Revolving Fund as soon as they are received. The Revolving Fund shall not be used as a subsidy, or to offset uncollectible billings or other charges. At any time the balance in the Revolving Fund plus outstanding, collectible billings shall equal at least the amount made available by DHPT to the Revolving Fund.

Upon termination of this Agreement or cessation of SWRTA's operation, the amount disbursed by DHPT to the Revolving Fund will be repaid to DHPT.

C. OPERATING PROCEDURE:

Requests by SWRTA for advances to the Revolving Fund must be fully supported by evidence of unreimbursed, collectible expenditures equal to at least the amount requested. Upon receipt of an adequately supported request, DHPT will disburse to the Revolving Fund the amount requested, provided that the total disbursed does not exceed $60,000.

SWRTA shall establish a separate bank account and general ledger account for the Revolving Fund. Each withdrawal from the Revolving Fund Account will be made as a check payable to the SWRTA General Fund Account and shall be supported by either:

1. A valid invoice issued by SWRTA for services rendered; or,

2. A progress bill summarizing expenses which have been paid, but which will not be billed until the next SWRTA invoice cycle. When an invoice covering the progress bill is issued, the progress bill will be so annotated and attached to the copy of the invoice in the Revolving Fund file.

Checks drawn on the Revolving Fund Account will require the same signatures as those drawn on the General Fund Account.

When the invoice for which a withdrawal was made (from the Revolving Fund Account) is paid to SWRTA, the funds received will be deposited in the Revolving Fund Account by SWRTA. The invoice copy which was used as supporting documentation for the withdrawal will be so annotated.

DHPT or the State Auditor shall have the right to audit the revolving fund and supporting records at any time during SWRTA's normal working hours.

D. TERM AND TERMINATION:

This Agreement is effective immediately and will continue until terminated. Either party shall have the right to terminate by giving written notice to the other party at least thirty days prior to the effective termination date. However, in the event that SWRTA ceases operation or fails to carry out the terms of this Agreement, DHPT shall have the right to terminate immediately.

In the event of termination by either party, SWRTA shall, at the time of termination, immediately refund to DHPT the balance in the Revolving Fund Account.

Within six months after termination, SWRTA shall refund to DHPT the remainder of the total disbursed to the Revolving Fund.

E. RECORDS AND REPORTS:

1. SWRTA shall establish and maintain for the Revolving Fund an appropriate accounting system, in accordance with generally acceptable accounting principles and standards, subject to review and approval by DHPT.
2. SWRTA shall maintain all books, documents, papers, accounting records and other evidence pertaining to the Revolving Fund. These records shall be available at all reasonable times during the contract period and for three (3) years after termination. Such records will be made available for inspection and audit by authorized representatives of the state and federal governments and copies thereof shall be furnished if requested.
3. Within ninety days after the end of each fiscal year SWRTA shall furnish to DHPT a report covering the operation of the Revolving Fund during the fiscal year.

F. MISCELLANEOUS PROVISIONS:

1. Publicaton Provisions

All reports resulting from the contract shall have an acknowledgement to DHPT and a disclaimer to the effect that the contents of the report do not necessarily reflect the official reviews of DHPT.

2. Responsibility for Performance, Claims and Liability

SWRTA shall indemnify and save harmless DHPT and the General Assembly of South Carolina, their officers, agents and employees from all suits or claims

of any character brought because of any injuries or damage received or sustained by any person, persons, organizations, or property on account of the operations of SWRTA; or because of any act or omission, neglect or misconduct of SWRTA, its officers, agents, employees, subcontractors or suppliers.

3. Disputes

In any dispute concerning a question of fact in connection with this Agreement, the decision of the Chief Commissioner of the Department of Highways and Public Transportation in the matter shall be final and conclusive for both parties.

G. EXECUTION:

Agreement between Santee Wateree Regional Transportation Authority and South Carolina Department of Highways and Public Transportation for a Revolving Fund.

SANTEE WATEREE REGIONAL TRANSPORTATION AUTHORITY

______________________ Attest: ______________________
Chairman

SOUTH CAROLINA DEPARTMENT OF HIGHWAYS AND PUBLIC TRANSPORTATION

______________________ Attest: ______________________
Paul W. Cobb W. P. Ragin
Chief Commissioner Secretary-Treasurer

FINANCIAL ACCOUNTABILITY

IMPLEMENTING THE SINGLE AUDIT

INTRODUCTION

This section of the manual deals with audits for human service transportation, and the problems encountered by the Consortium States, the implementation experience of several of the States of a single audit and the initial observations of the effects of an adopted, uniform chart of accounts modified from the Section 15 standard chart of accounts. As background, it should be noted that there are three types of audits that can be performed: (1) Financial and compliance audits which include review of financial transactions and compliance with legal and contractual provisions; (2) program compliance audits which involve testing compliance with Federal program requirements; and (3) performance audits which are intended to assess the efficiency of operations and the effectiveness with which program objectives are being attained. An efficiency performance audit is designed to determine whether the audited entity is managing or utilizing its resources in an economical manner and the causes of any inefficiencies or uneconomical practices. An effectiveness performance audit is designed to determine whether desired results or benefits are being achieved, whether objectives established by the authorizing body are being met, and whether the audited entity has considered alternatives which might yield desired results at a lower cost.[1]

As documented in the Survey Section of this manual, audit problems for providers and state administering agencies identified by the Consortium States were:

- **Fiscal audits are complicated by the lack of uniform bookkeeping procedures.**
- **The amount of effort expended to conduct audits is too great.**
- **Providers have to contend with too many uncoordinated audits by different government agencies.**

One variable that effects these problems is the Federal mandate for a single audit.

The Single Audit

State and local governments receive funding from multiple federal sources, resulting in,uncoordinated audits for each source. To address this problem, the Office of Management and Budget promulgated Circular A-102, Attachment P to require that audits be made on an organization wide basis. Attachment P states in part:

This attachment establishes audit requirements for state and local governments, and Indian tribal governments that receive Federal assistance. It provides for independent audits of financial operations, including compliance with certain provisions of Federal law and regulation. The requirements are established to ensure that audits are made on an organization-wide basis, rather than on a grant-by-grant basis. Such audits are to determine whether (a) financial operations are conducted properly, (b) the financial statements are presented fairly, (c) the organization has complied with laws and regulations affecting the expenditure of Federal funds, (d) internal procedures have...

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[1]More complete definitions of these types of audits are found in Governmental Accounting, Auditing, and Financial Reporting, Municipal Finance Officers Association, 1980.

been established to meet the objectives of federally assisted programs, and (e) financial reports to the Federal Government contain accurate and reliable information. Except where specifically required by law, no additional requirements for audit will be imposed unless approved by the Office of Management and Budget.
It should be noted that block grants, for example Social Service funding under Title XX, are excluded from the provisions of the single audit mandate.

STATE MODELS FOR IMPLEMENTATION

Three of the six Consortium States have dealt with the single audit issue by analysis or demonstration. The experiences of implementation reflect that the application of the single audit to transportation providers depends on their source of funds, how they fit into the state or local government structure, and the type of uniform accounting available.

Michigan

The Consortium objective of Michigan in the area of financial accountability was to develop and test alternatives to, or combinations of, existing audit simplifications. This would to enable the statewide adoption of an audit approach to reduce and minimize the time, staff, and overall costs of audits which examine to any extent transportation expenditures. This fits into the overall context of the Michigan project to define ways to make human services and public transit programs more efficient and effective.

To begin, a review was made of existing audit simplification projects in the State. Three such projects were identified: 1) The Michigan Department of Treasury with the cooperation of the Michigan Department of Transportation developed an **Audit Guide for Public Transportation Authorities and Agencies in Michigan**, 2) The Michigan Office of Services to the Aging (OSA) developed an audit guide for OSA grants; and, 3) In 1980, the Michigan Legislature mandated the director of the Department of Management and Budget to create an interagency task force to develop a county audit system that would satisfy all local, State and Federal audit requirements.

The **Audit Guide for Public Transportation Authorities and Agencies** is a guide for a financial audit and compliance. The guide provides a basic audit outline for CPA firms conducting audits of transportation providers. The providers audited are those receiving funds from the Michigan Department of Transportation. The providers use a uniform chart of account system based on Section 15. Subcontracts with human service agencies are reviewed, but in less detail. The audit reviews State transportation funds flowing to the local level. The scope of the audit program specifically states that the auditor is not expected to complete an efficiency and effectiveness audit, unless a highly unusual situation exists.

The OSA audit guide is also for a compliance and financial audit. However, this guide comes closer to providing a complete audit of transportation costs because it calls for the auditor to make sample coverage of subcontracts in details. Transportation is often a subcontract item in human services programs.

The Department of Management and Budget audit guide to be developed by the task force for a county audit will not be detailed enough to fully address transportation costs. This is because this audit is designed to cover funds flowing to the county. In most instances,

transportation funds flow from the county to a local provider. However, the survey methods used and the resulting audit guide will place transportation projects and contracts, excluding block grants, under a single audit review. Block grant audits done under the single audit guidelines would be acceptable to the State, as would one done under the requirements of the block grant.

In Michigan, transportation in human services programs is treated as a component of service. Given this situation, financial and compliance audits, and program compliance audits in Human Service Programs do not address transportation. These types of audits focus attention at the program level not at the component level. In an environment of increased transportation costs, increased emphasis on coordination of transportation services, and continued concern with improved service delivery; it appears that the most appropriate method of reviewing transportation costs would be an efficiency and effectiveness approach.

As noted in reviewing existing audit simplification programs, efficiency and effectiveness audits have not been addressed in Michigan. Michigan has an audit guide for funds flowing from the Department of Transportation to public transportation providers. But, the guide is limited to a financial and compliance audit. It complements the State approach to a single audit. In the area of human services transportation, only one agency, OSA, has developed an audit guide. But again, it is limited in scope to financial and compliance aspects.

A review of transportation costs with regard to efficiency and effectiveness could be accomplished in one of two ways. One method would be to develop an audit guide specifically designed to evaluate performance. The benefit of this method is that it would allow integration with existing financial and compliance audit guides to provide a more complete audit guide. A possible shortcoming of this method is that it may not be cost effective to develop an audit guide for and perform audits of a service component.

A second method would be to have the Human Service program offices monitor transportation. This method would allow management to continuously monitor a significant portion of program costs. However, program managers may be reluctant to adopt this method because it would create additional administrative work. Therefore, it would have to be demonstrated as cost effective. Success in deriving program information is directly related to the extent of financial record keeping available. The reader is encouraged to review the decision tree in the Bookkeeping Section of this manual to assess the relationship of financial to nonfinancial reporting.

The determination of the best approach, or combination of approaches, to auditing or monitoring transportation costs of human services agencies is dependent upon the resolution of several other factors. In Michigan, these factors include developing uniform client need and transportation service definitions to provide benchmarks, developing uniform rate setting procedures for comparability among funding sources and developing a method to identify total transportation costs of a program. Certainly the approach of the Michigan Department of Transportation, with audits based on providers using a modified Section 15 chart of accounts, sets one direction that can be taken. However, until these other factors are resolved, development of a single audit guide or system for monitoring transportation costs would be premature.

In order to evaluate efficiency and effectiveness, there must be some standard against which to measure actual results. As each of the factors is resolved, the impact on the suggested alternatives will be assessed.

North Carolina

Two major State government undertakings in North Carolina have improved the general accounting environment within which coordinated transportation service providers operate. Because of these general efforts, the prospects for audit simplification are greatly enhanced.

The first of these efforts was a comprehensive review and analysis of State governmental accounting completed in March of 1981. The purpose of this review was to identify the changes necessary in the overall State and State agency accounting systems to bring these systems into compliance with current generally accepted accounting principles (GAAP). GAAP refers specifically to **Governmental Accounting and Financial Reporting Principles** published in 1979 by the National Committee on Governmental Accounting. The review was motivated by the inadequacy of the simple cash basis of accounting. The simple cash basis could not accurately reflect outstanding liabilities, contingencies, and other indicators of financial condition essential to sound financial planning in the face of high inflation rates and declining revenues available to government.

While it is beyond the scope of this report to document in detail the accounting changes recommended as a result of this effort, the establishment of a GAAP-based accounting system in North Carolina yields obvious benefits to the State in relation to financial auditing. These benefits include establishing uniformity in accounting principles and financial statements across all agencies of state government which provides a common basis for the documents and procedures reviewed in the course of financial audits. In addition, the effort required to conduct a single audit of an entity receiving and expending funds administered by several separate State agencies is greatly reduced if the uniform accounting and reporting principles characterize funds received from different sources.

More specifically the feasibility of single audits of coordinated transportation providers has been further enhanced by the development of a uniform chart of accounts for transportation operators which is compatible with the State imposed standard chart of accounts for local governments. More details on this subject may be found in this manual in the Bookkeeping Section. In North Carolina, transportation providers, including those systems with 16 or more line haul buses, will be required to use a modified version of the Section 15 uniform chart of accounts. Consequently, audits of such providers will be based on this level of detail.

The establishment of a GAAP based State accounting system and a uniform chart of accounts for transportation providers creates a solid foundation upon which to build compliance with the federal single audit requirements of Attachment P to OMB Circular A-102 for coordinated transportation providers. In North Carolina another Federal development has facilitated State governmental efforts to apply the single audit principle to these providers. In response to the establishment of Federal block grants to replace categorical Federal grants, North Carolina developed and issued, in October of 1982, its **Administrative Procedures Manual for Federal Block Grants Funds.** The manual substantially reduces the "paper work" formerly required for each categorical program and breaks new ground in facilitiating the single audit of transportation providers.

Profit and nonprofit organizations receiving block grant funds are required to conform to the budgeting, accounting, and auditing requirements imposed by the State on local governments and public authorities. Hence, transportation providers, regardless of their

public/private audited on this uniform basis i.e., using GAAP-based accounting systems and a uniform chart of accounts.

In addition, State agencies will accept a single audit of all funds for each grant recipient, where specified audits standards are met. These audits, where it is feasible, will be conducted by independent auditors.

The efficacy of these State government actions in North Carolina remains to be assessed. However, the establishment of a GAAP based accounting system at the State level, the imposition of a uniform accounting requirement on local governments and public authorities, the extension of these requirements to profit and non-profit organizations receiving State administered funds, the State Level consolidation and streamlining of formerly categorical program requirements in the administration of Federal block grants, and the establishment of a uniform chart of accounts for transportation providers compatible with mandatory local government accounting requirements, are steps which any state can take to enhance the feasibility and effectiveness of conducting single audits of transportation providers.

South Carolina

The model for a single audit implementation utilized by South Carolina was considerably different than that of Michigan or North Carolina. The focal point of implementation in South Carolina was the regional transportation provider rather than statewide. The implementation experience dealt with two such providers where the single audit has been planned as a component of the Consortium project. The source of funds for these two providers were derived in a large part from human service agencies.

As part of this effort, South Carolina has developed a **Financial Operating Manual for Transportation Providers.** The Manual includes a consolidated guide for selecting a private firm of certified public accountants to perform an independent audit. The firm is selected through circulation of a request for proposal. The sample RFP specifically states that the scope of the audit to be provided is to include an organization wide audit of all Federal programs administered by the regional transit provider. The guidelines covering the audit include: (1) definitions, (2) current audit requirements for Federal and State agencies, (3) standard CPA selection procedures (4) a sample request for proposal, and (5) a sample contract for audit services. The guidelines are available on request. The results of the South Carolina audit demonstration will be available subsequent to this report. The significance of the results will be based on the fact that both human service and public transportation are being served by the same uniform chart of accounts. Test results of a single audit in a regional setting are expected to reflect those changes needed to make the single audit acceptable to the agencies involved.

SUMMARY OF IMPLEMENTATION

The Consortium States reporting on the progress of the single audit reflect, in two instances, a state wide general approach. Provisions made in North Carolina for uniform accounting for public transportation providers, Section 15 modified charts of accounts have been made components of the approach to uniform audits. Consequently funds flowing from the State Transportation Departments can be tracked to the local level. At this time, plans for developing performance audits to complement the financial audits are undeveloped. Provisions for auditing transportation funds flowing from social service block grants are based on requirements for these block grants.

Another of the Consortium States exemplifies a more consolidated approach at the regional level. South Carolina's regional transportation authorities are structured to cover both public and human service transportation. The standardized accounting system adopted serves funds flowing from both sources. Consequently, a single audit covers both. Although plans for performance auditing are undeveloped, it is reasonable to expect that because of the uniformity of bookkeeping, standard measures will be adopted. As implementation progresses, statewide uniformity will be achieved.

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IMPLEMENTING PROGRAM/SERVICE ACCOUNTABILITY

INTRODUCTION

The overriding question to be addressed in this segment of the manual is how the measures of service accountability can be employed with a minimum of administrative burden. Program service accountability is defined as those procedures required by programs or funding sources which verify that service has been consistent with program requirements. Inherent in the program and service accountability definition are functional components dealing with: (1) client eligibility, (2) provider eligibility, (3) service provision, and (4) record keeping.

The Consortium survey of providers and state agency personnel laid aside many of the aspects of this accountability problem but emphasized two related ones. Both state and provider agencies were concerned that:

- **There was a lack of coordination of program and service accountability among funding programs.**

The multitude of Federal programs and requirements suggest that basic service definitions and a minimum data set would mitigate many of the problems experienced.

- **There was lack** of **service data comparability among various programs.**

Problems comparing data between programs primarily were due to the lack of service definitions and uniform service requirements among the various funding sources.

Client Eligibility

Although client eligibility problems were explored in the Consortium survey, they were considered to be less than major. One factor obviates the problem. In as much as the primary service agency normally determines the eligibility for the program, it would be duplicative for the transportation provider to do the same thing. Client eligibility determination by the provider, including income eligibility, proves costly.

Provider Eligibility

The transportation needs of human service agency clients are frequently met by existing family or institutional support systems. However, there are additional requirements where specialized equipment and/or care is needed. Human service agencies secure specialized transportation for the client through a variety of mechanisms, including family, friends, neighbors, volunteers, nonprofit organizations in the community, and contracts with nonprofit providers (public transportation agencies) and for profit providers (cab companies). In rural areas particularly, there is a heavy dependency on the private automobile. Overall, the process is matching the clients needs with the transportation resources available.

The assessment of the human service agency that a given provider can meet the client's requirements appears to be the major, practical provider eligibility requirement. The Consortium survey of providers suggests that very few providers encounter a certification process. Those reporting a certification process were coordinated providers. Such requirements are most likely attributable to state regulatory or coordination policies. Human service contract literature emphasizes the recommendation that service related information should be clearly spelled out.[1] However, transportation provider eligibility

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[1]Buzzell, Harold, Booz-Allen and Hamilton, Management Consultants Purchase of Service, Jan. 1971. Available from the National Technical Information Service, Springfield, VA. 22151.

requirements rarely appear to be addressed. Experience suggests that minimal considerations would include vehicle, vehicle licensing, vehicle equipment, driver, driver licensing, and driver training requirements.

Service Provision

Verifying the client has received transportation is the essence of this element. Providers surveyed in the Consortium States were unconcerned with problems in this area. Even the envisioned concern of accounting for clients from different programs on the same bus did not register concern. Providers claim service delivered on an invoice. Verifying that the service was provided rests with the agency purchasing the service.

State agency respondents to the Consortium survey registered concern with monitoring the service delivered. The contract situation suggests that the states have considerable latitude in defining the service terms, financial and program reporting requirements. Developing some measure of uniformity for these requirements between Federal funding programs is a challenge the State can undertake and partially resolve for its own operational benefit.

State agency monitoring implies documentation to compare against the invoice. The documentation can take two forms. One is a log of service. The other is reporting by exception. The latter course of action is especially effective in those circumstances where transportation is a component of a social service, e.g., day care. When the client does not receive the social service, in all likelihood he has not received transportation. In both instances data is derived from the client to be compared against the providers' claims.

Record Keeping

As described in the Bookkeeping Section of this manual, all urban and some smaller public transit providers receiving U.S. DOT funds keep standard financial records as prescribed in the standardized chart of accounts as outlined by the Urban Mass Transit Act, Section 15. Essential program accountability data is usually readily available as a by-product of this effort. In some instances, additional program data may be derived from sampling techniques. Under these circumstances human service agencies contracting for services have a ready source for cost and most of the program data. To meet simplification concerns, additional data desired by the human service agency is evaluated as to (1) how necessary the information is; (2) whether it is easy to obtain, and (3) whether the contractor will pay the costs to obtain the data.

STATE MODELS FOR IMPLEMENTATION

Four of the six TAC States are involved in analysis or demonstrations for the program service accountability area. An overview for each of these States follows. The reader is encouraged to follow the State examples through the decision tree in the bookkeeping section of this manual.

Iowa

Iowa's Department of Transportation's report on "Performance Measurement Development and Management Performance Auditing" explains how performance measurement is a logical outgrowth of the Uniform Data Management System. Three approaches are introduced: One is a matrix of performance indicators for the purpose of peer group comparison. It is

composed of 111 independent performance ratios. The second introduces measures to help the transit provider analyze efficiency effectiveness and financial activity. The third deals with measures in relation to a transit authority's goals and objectives.

The measures dealing with financial activity, efficiency, and effectiveness are germane to both general public transit and private, contracted, specialized transit services.

The ratios employed are indicative of the service definitions and record keeping required. In as much as the Iowa UDMS system recently has been made available to human service system participants, the issues of client and provider eligibility have not fully been addressed. However, a principal has been established that acquisition of data beyond existing requirements only is considered on the basis of program and cost justification. The decision tree, in Figure 2 in the bookkeeping section of this manual, portrays the role of the State.

Both uniform financial and operating reporting has been developed by the Iowa Department of Transportation. Financial regulation, operating regulation, and management and technical assistance roles have also been pursued by the Department. Various human service agencies have joined the Transportation Department in sharing the uniform reports in varying degrees. The Office on Aging has adopted this approach in the most comprehensive fashion. Social service programs also use the rate information in many instances.

Massachusetts

The Massachusetts analysis, a regional transportation brokerage model, emphasizes performance measures correlating costs to service definitions. Service definitions proposed for Medicaid regulatory and rate setting purposes range from fixed route service through exclusive-ride service. These definitions are:

- Fixed-route service - bus or rail service operating along fixed routes on fixed time schedules.
- Shared-ride service - door-to-door service with several passengers having diverse origins and destinations sharing the vehicle at the same time.
- Exclusive-ride service - door-to-door (sometimes door-through-door) service with one or more passengers traveling in the same vehicle between a single origin and a single destination.

The Massachusetts model emphasizes that the responsibility for determining the client's eligibility for transportation services rests with the primary service agency. In assessing the impact of the model on the Medicaid program, it was noted that eligibility forms could be eliminated. The previous practice of having physicians complete client eligibility forms was time consuming. Indeed, the doctor's expertise was quite different than assessing the availability of transportation. An alternative was providing the regional transit broker an updated master list of clients for transportation schedules. Under this method, the responsibility of determining client eligibility is one proposed to be done by the caseworker during eligibility determination. Impacts on the home care program and those programs for the aged are also evaluated in the Massachusetts report.

Massachusetts' proposed approach to the provider eligibility for Medicaid is to treat transportation as an administrative cost rather than reporting it as a service. This is also done in Michigan.

Federal regulations (42CFR431.53) require each state to make provisions for ensuring the necessary transportation of recipients to and from medical services. In meeting these regulations, the most fundamental decision the state agency makes, in terms of its impact on transportation service providers, is whether transportation will be considered a medical service in the state Medicaid program or an administrative/support service component. The decision must be delineated in the State Medicaid Plan. Generally, if transportation is considered to be a medical service, providers must comply with more paperwork requirements in terms of rate setting licensing, client eligibility certification, and bookkeeping.

Designation of transportation as an administrative/support service component, however, provides the state agency with greater flexibility. A Federally required "freedom of choice" provision does not apply to administrative activities. Therefore the state agency has considerable choice in terms of provider selection, rate setting procedures, and accountability requirements. Conceivably, by designating transportation as an administrative function, the State Medicaid Title XIX Agency would be able to contract with a single provider in a community i.e., a coordinated transportation system, for various types of nonemergency medical transportation at a negotiated rate.

Under Title XIX of the Social Security Act (Medicaid), the proportion of the cost of the activity that is matched by Federal funds and the matching ratio is determined by whether the activity is designated as a medical service or as an administrative cost. Administrative costs are matched on a 50-50 matching basis, while medical service costs are matched at a medical assistance rate determined by formula for each state. In the past, most states, including Massachusetts, have found it financially advantageous to consider transportation as a medical service.

However, designation of transportation as a medical service has several disadvantages for transportation providers. First, the state is required to establish rate setting and quality control procedures for transportation providers to implement the "freedom of choice" provision in the Federal legislation. Second, the "freedom of choice" provision requires a selection of market rate transportation providers to be available to Medicaid clients. This requirement prevents the state Medicaid agency from contracting with a single provider in a community to provide a specified amount and/or type of transportation service. It assumes the existence of a competitive market. Third, transportation providers are subject to the same program and fiscal accountability requirements mandated for all medical service providers.

The analysis also addresses provider eligibility. The proposed regional broker would be contractually responsible not only for arranging services, but also for provider quality controls, such as vehicle and equipment standards, e.g. lifts, wheelchair tie downs etc.; and driver responsibilities and training; e.g. training on moving the physically impaired in "door-through-door" service.

Proposed service verification and record keeping procedures emphasize the primary service agency's role in establishing a mechanism for logging authorized trips. The providers role is to report units of service delivered and cost on the invoice. The Massachusetts proposal provides for two alternatives in billing. A provider can use either a summary billing

statement or a detailed one. These invoicing methods have impacts for medicaid, home care, and programs for the aging. The detailed method provides for listing the client's name, so that the client characteristics could be retrieved from the agency files. This is to satisfy the situations where client characteristics are to be reported to the funding agencies.

In terms of the decision tree in the Bookkeeping Section of this manual, the recommended Massachusetts invoicing and accountability measures provide for standardizing the approach to human service transportation across program lines. In the Medicaid example administrative paperwork is reduced. The State agency role is regulatory for financial and operating concerns. The focus is rate setting.

However, there is a scenario trade-off of welfare office personnel becoming more responsible for determining eligibility and monitoring performance. The recommended accountability procedures focus on the information that transportation providers collect in connection with their daily operations. The regional transportation providers records provide the basis for financial reporting. Human service agencies are expected to tailor their transportation reporting requirements to be readily compatible with this information. Moreover, unless other agencies adopt the reports, the approach will result in individual operating reports for human service agencies based on individual financial reports for the regional transportation providers.

North Carolina

Analysis of the program service accountability area produced only moderate concern in North Carolina. The areas involved in the concerns expressed centered around the lack of coordination of requirements for program service accountability across the numerous funding sources, the inability of State funding agencies to compare or tabulate data as a result of the lack of coordination, and the concern shown by local transportation providers with Title XX eligibility certification.

Follow-up interviews with State agencies surfaced underlying concerns with inequitable cost allocation and the subsidization of other programs caused by this inequitable allocation of costs by local transportation providers. State agencies felt that because of their inability to compare data uniformly (in many cases utilizing their agency's format), they were paying more than their fair share of the total cost of the transportation service. These issues, as expressed by the State funding agencies, have led to the conclusion that State agencies were much more concerned with billing and cost allocation than they were with program service accountability issues. It would seem that their underlying concerns tend to point toward uniform bookkeeping rather than verification of service to eligible program participants. This conclusion was further supported by the fact that State agencies showed very little concern in the other problem areas tested.

It was not surprising that North Carolina State agencies did not view the lack of coordination of requirements as a problem. This is explained by the fact that these agencies tend to operate independently. They also were not fully aware of the negative impact that is created at the local provider level when the provider is funded by numerous State and Federal agencies.

Providers, on the other hand, identified the lack of coordination of program requirements as their primary problem area. The lack of coordination of program service accountability

requirements, as well as the process they are required to follow to certify Title XX clients, were identified as their major concerns. Only one specific program other than Title XX was identified as causing major paperwork problems. This program, Title III-B of the Older American Act, required more nontransportation related data than any other program under study. Local providers stated that they spent more administrative time and money collecting and preparing reports for this program than any other.

In addressing the Title XX certification issue, the analysis points out that major reforms were currently being studied by the State Title XX agency in all areas of the program. It was felt that the client certification problem could best be addressed through existing interagency efforts to develop standard administrative procedures for all block grant programs in North Carolina. The follow-up interviews with local transportation providers identified Title III-B of the Older Americans Act as the program requiring the most information to be reported that was not relevant to verifying that an eligible person was transported to an eligible program activity. These reporting forms, along with those required by other agencies, cause administrative time and many costs to be unnecessarily high.

The North Carolina analysis suggests that program service accountability problems start when local transportation providers are primary recipients of multiple State and Federal funds. In these cases, providers are generally required to meet all program requirements that are developed for the primary service. However, the analysis finds that in those cases where transportation providers enter into third party contracts with a local human service agency who has the primary service contract, the data requirements are reduced considerably. Requirements are focused on that data necessary to verify cost allocation and invoice charges. In the latter case, local primary service providers and the transportation providers seem to have much more flexibility in the development of the information that is to be reported. Therefore, it is the contract structure that is the target for more uniform reporting resulting in reduced administrative paperwork and cost.

In terms of the decision tree, the roles taken by the North Carolina Department of Transportation are of financial assistance, the allocation of resources, and provision of management and technical assistance. Uniform accounting has been chosen for those systems with fifteen or more fixed route vehicles. As such, uniform financial and operating reporting exists for these systems. However, a considerable number of the State's transit providers are considerably smaller, serve rural areas, and are heavily supported with contract funds from human service agencies.

Directions of the decisions in the human service transportation programs fully recognize the necessity of a uniform bookkeeping system to first establish uniform financial reporting. Emphasis is on adopting systems that will meet local needs. Based on the identified problems and the analysis conducted, North Carolina indicates a direction that will concentrate on (1) eliminating the unnecessary Title III-B reporting requirements, (2) standardizing a report form that will include financial as well as program specific data, (3) utilizing existing formats where possible in this form development, (4) studying the use of sampling methodologies in an effort to reduce the frequency of data collection, and (5) researching available computer technology for possible implementation at selected sites in North Carolina.

South Carolina

The approach used by South Carolina is quite different than those taken by other Consortium States. A transportation provider manual recently has been prepared for the South Carolina Department of Social Services in cooperation with the Interagency Council on Public Transportation and the Office of the Governor. The manual provides a "one stop" source book based on Section 15 uniform accounting. It also covers the issues involved in program service accountability. Program and service accountability measures are addressed on (1) the basis of a review of Federal categorical programs and client eligibility, (2) uniform service definitions, (3) provision of service, and (4) record keeping.

The transportation service definitions employed by South Carolina are to be viewed in the context of human service agencies contracting for their transportation needs with regional transportation providers. Further, the mechanism that establishes uniformity of service definition is a standardized contract. Trips are defined in terms of a zonal fare structure. The provider manual and contract define a full complement of service terms. Human service agencies are asked to agree to the terms of the standard transportation contract when doing business with the regional transportation provider.

South Carolina's approach to client eligibility is founded in a survey of the Federal categorical program requirements. Client requirements for age, income, employment, and medical and disability conditions are defined. Operationally, the South Carolina system transit providers rely on the human services contractor to certify clients for eligibility. The transit provider uses the names, origin, and destination information provided by the human service agency to schedule trips. Human service agencies are requested to play an active role in the scheduling. For example, Medicaid appointments are specifically scheduled rather than attempting daily, countywide service.

Provider eligibility and the assessment of it is implied in the South Carolina contract procedures. Services and related rates are defined in the contract. There is full expectation that the provider entering the contract can render the services.

The record keeping provisions of South Carolina are well defined, including methods of cost allocation. The provider Manual addresses: (1) General Financial Requirements, (2) Personnel, (3) Property Management, (4) Equipment Maintenance, (5) Vehicle Operations and (6) Passenger Records. The roles of the South Carolina Governor's Division of Department of Transportation, the Interagency Council and Social Services includes both financial assistance and financial regulation, rate setting. In terms of the decision tree, uniform financial and operating reports are available to both transportation and human service agencies.

Michigan

Although Michigan did not have a program service accountability project requirement, the following description is provided for comparative purposes. The Michigan Department of Transportation has a role of operating regulation, financial assistance, administering State tax funds to support transportation systems, and management and technical assistance. The modification of Section 15 has led to both uniform financial and operating reports. Human service agencies at the local level contracting with such providers are served by the uniform system. Those not served by public transportation would follow the block grant pattern of reporting (Figure 4 Bookkeeping Section of this manual) and tend to have individual financial and operating reports.

Summary of Implementation

Adopting uniform financial and operating reports at the state level provides for a system of program service accountability for both the public transit and human service agencies. The model and decisions made by South Carolina portray this most clearly.

Other Consortium State models have adopted a uniform financial and operating reporting method for varying levels of public transportation providers. Financial and operating reporting for human service agencies, depending on the size of the operation, takes the form of individualized program reporting. As such, human service agencies should tailor their transportation reporting requirements to be readily compatible with information being collected by the public transit provider in connection with the daily operation. In those instances when the human service agency is contracting with a public transit provider in an urban setting, extensive cost data will be available. In some instances rural transit public providers who have adopted a uniform financial system can make comparable data available. In some few other circumstances, if the human service agency is providing its own client transportation services, agency management may want to consider adopting the standard reporting based on the scale of the operation. (Models of this type of decision include systems used in Brazos, Texas and Wilkes-Barre, Pennsylvania.) In other circumstances, volunteers for example, reporting may take the form of minimal data collection such as reporting simple cost and trip elements. For the reader who is interested in a more complete treatment of performance measures, we recommend the Pennsylvania report, Rural Public Transportation Performance Evaluation Guide.

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THE USE OF UNRESTRICTED FEDERAL FUNDS

IN THE

U.S. DOT/FHWA SECTION 18 PROGRAM

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INTRODUCTION

This report analyzes South Carolina's implementation of the U.S. DOT Federal Highway Administration's Section 18 program's provision which allows the use of unrestricted Federal funds as local match and compares it to what is being done in other Consortium States. The report presents two case studies in which a complete range of unrestricted Federal funds utilization can be found, and answers the following three questions:

1. Can a definition of unrestricted Federal funds or a list of pre-approved Federal funding sources be provided?

2. What are the mechanics of using the unrestricted Federal funds for matching purposes?

3. How can the match maximums be calculated?

The report is completed with a series of positive and negative findings, and a summarized conclusion.

In past decades, many separate Federal categorical programs have been established to meet the transportation requirements of social service programs and those systems available to the general public. Such funding programs either require local funds as a match against the Federal contribution or, in a few cases, require no local match. Match requirements have been established to ensure local commitments for the program and to distribute the burden of the program's cost between the various levels of government.

With Congressional approval of the Small Urban and Rural Public Transportation Program (Title III, Section 18 of the Surface Transportation Assistance Act of 1978), a new approach was legislated which allowed the use of other Federal funds to partially account for the local match requirements. This new flexibility in developing the local match for Federal grants, known as the "Unrestricted Federal Share Provision", recognized the limited matching resources at the small urban and rural levels. It has also greatly assisted the program in attaining one of its main goals: coordination of human service and general public transportation delivery at the local level.

The extent to which other Federal funds are used to match the Section 18 funding is left, to a great degree, to the discretion of the state administering agency. Many states have rigidly interpreted the unrestricted Federal share provisions, while others have allowed great latitude in use. This difference among states is principally due to the nature of each state's existing program in small urban and rural areas. If a state has a tradition of public transportation services in non-urbanized areas, then local financial resources are most probably available to match the Section 18 funds and there is not an urgent reason to start a large number of new programs. The initiation of new programs requires a large initial investment and, therefore, more local match. In 1978, states like South Carolina had very few public transportation systems in non-urban areas, and were looking for the greatest flexibility possible to produce the local match for Federal funds.

Another major factor is the availability of state funds to assist counties, municipalities or authorities in developing local match. States with a state public transportation subsidy program found it unnecessary to look for unique approaches to use the unrestricted Federal funds provision.

USE OF UNRESTRICTED FEDERAL FUNDS IN SECTION 18 PROJECTS BY TAC STATES

Arkansas

Like South Carolina, the State of Arkansas does not have a state operating and capital assistance fund to assist in providing local transportation systems with matching share support. Therefore, the unrestricted Federal funds provision of the Section 18 program is considered crucial to the survival of local transportation systems.

Having received letters in response to state-level inquiries regarding which specific Federal programs were allowable for use as match, the State has encouraged the maximum utilization of all such resources in capital, operating, and administrative budgets.

North Carolina

The State of North Carolina, in contrast, does provide 50 percent of the local share (or 10 percent of the total 20 percent matching requirement) for capital expenditures in the Section 18 program. North Carolina does not allow the use of unrestricted Federal funds as match on capital expenditures because it is believed that the degree of local support demonstrated through the required match is important to the success of the transportation project and an indicator of long-term commitment.

In addition, the "soft-match" represented through unrestricted Federal share really could not be used to purchase a vehicle. Actual cash is required to cover the purchase price. The use of "soft match" in this situation could escalate the hard cash expenditure in excess of the 80 percent Federal share limitation.

Unrestricted Federal share may be used in support of administrative cost functions, as well as operating costs in North Carolina. For example, service contracts are used to offset the local match. In cases where there is an excess of local match, the appropriate formula, as discussed in this section, is utilized.

Michigan

In Michigan, the State funds 100 percent of the non-Federal share for capital and rehabilitation projects. In addition, the State of Michigan funds two operating assistance programs. The "statutory operating assistance program" distributes State funds to each eligible authority or local government agency/entity based upon its percentage share of the total eligible population and eligible transit miles. The "supplementary operating assistance program" supplements Section 18 funds to bring reimbursement to eligible transit agencies up to 50 percent of the eligible net deficits. Therefore, because of the extensive State involvement in supporting transportation programs, Michigan has not explored the possible implementation of the unrestricted Federal fund provision.

Massachusetts

The State of Massachusetts funds 50 percent of the Section 18 non-Federal share for operating programs. Although no formal policy has been developed regarding the utilization

of the unrestricted Federal share provision, the State continues to encourage the participation of human service agencies which receive direct transportation service. For example, the Department of Elder Affairs has been identifying costs associated with their Food and Nutrition Program as match for the transportation authority. This, combined with similar efforts on the part of the Department of Public Welfare, has resulted in a noticable increase in the utilization of U.S. Department of Health and Human Services funds as local match in the Section 18 program over the last year.

Iowa

Iowa allocates State funds on the basis of locally determined income, ridership to expense ratio, and revenue miles to expense ratio. It covers operating and capital expenses, and funds up to two-thirds of the non-Federal share.

In terms of operating expenses, for its regional, multi-county rural transportation authorities, the amount of Iowa's transit assistance project funds generally exceeds that which is made available through the Section 18 program. In some small urban and rural systems, however, the Section 18 operating funds represent an amount higher than State assistance. But, municipalities have been capable of generating the necessary matching funds from other existing local tax resources. Moreover, the unrestricted federal share provision has not been used in either case for capital procurements.

Therefore, the State of Iowa has given little consideration to the implementation of the unrestricted Federal share provision. Due to the high level of State financial assistance, it has been unnecessary. In addition the introduction of the provision could possibly further complicate an already complex funding process.

THE SOUTH CAROLINA EXPERIENCE

This section examines efforts by the State of South Carolina to make the most efficient use of the Federal Highway Administration (FHWA) Section 18 program's provision (Chapter I, 23 CFR § 825.96) that allows the use of unrestricted Federal funds. The provision reads, "Half of the local share for both capital and operating expenses must be provided in cash, from resources other than Federal funds or revenues from the operation of the system. The other half of the local share may be made up of unrestricted funds from other Federal programs." In practice, this provision has been applied to administrative expenses as well.

The above reference to "efficient use", when viewed in the local perspective, means minimizing local cash need or stretching available local cash as far as possible. Ironically, and contrary to popular belief, making efficient use of local cash resources also makes efficient use of Federal funds; therefore, all parties are benefiting.

To reduce any possible confusion which may have resulted from reading other related Federal publications, the terms "soft match" and "unrestricted funds" are synonymous with "unrestricted Federal funds."

The three major questions which had to be answered prior to South Carolina's use of the unrestricted Federal funds provision were the following:

1. Can a definition or list of these funds be provided?

2. What are the mechanics of using these funds for matching purposes?

3. How can the match maximums be calculated?

<u>Definition</u>

In April 1980, FHWA issued a memorandum entitled, "The List of Federal Funds That Can Be Used for Local Match for Section 18 Projects" (See Appendix I), for the purpose of assisting grantees in certifying sources of unrestricted Federal funds. (Note: Recent changes in Federal legislation are not reflected on this chart.) South Carolina and its grantees have also dealt with Federal funds not referenced in this memorandum on a case-by-case basis. A clarification of the use of some such Federal sources is presented in the case studies included in this section.

<u>Mechanism</u>

The State of South Carolina, in conformance with U.S. DOT guidelines, has designed a budgeting system for its Section 18 application process utilizing standardized forms and procedures. These forms are the same as those presented in the case studies later in this paper. These tables recognize the expenditure budget and the revenue or grant calculation budget.

The first table (See Tables 1 and 5) is designed to aid applicants in itemizing their projected expenditures into appropriate categories for Section 18 funding (operations, capital, and administration). The second table (See Tables 2 and 7) is designed to deal with the funding categories or revenue sources for the Section 18 program. This table takes information from the first table and, through the aid of the third and fourth tables (See Tables 3, 4, 8 and 9), provides a mechanism for the calculation of match and system revenue.

<u>Match Calculation</u>

In 1980, a formula was derived by FHWA (See Appendix II), and utilized by South Carolina, to provide a systematic method to account for the correct use of unrestricted Federal funds in the grantee's budget. This method can be used by all states. The procedure adheres to the basic requirement that <u>unrestricted Federal funds must be shown as expenditures if they are to be shown as revenues</u>. This balancing of expenditures and revenues also holds true for in-kind values.

This formula, which is presented below, is to be used in cases where the unrestricted Federal funds are in excess of one-half of the local match. It will also work when local resources exceed match requirements. Cases in which both unrestricted Federal funds and local resources exceed match requirements are addressed in the following paragraphs.

<u>Definitions:</u>

X = unrestricted Federal funds as match
A = gross expenditures
B = fare box revenues
C = total unrestricted Federal funds available
Z = unrestricted Federal funds as revenue
Y = net expenditures, and

X = unrestricted Federal funds as local share match

$$X = \frac{A - B - C}{9}$$

(9 is the denominator used for capital and administrative expenditures. A denominator of 3 is used for operations expenditures)

$Z = C - X$
$Y = A - B - Z$

For example:

A =	\$100,000	(gross administrative expenses)
B =	0	(farebox attributed to administrative cost)
C =	\$ 25,000	(CETA training grant)

$$X = \frac{\$100,000 - 0 - \$25,000}{9} = \frac{\$75,000}{9} = \$8,333$$

(Federal Section 18 share - \$66,666)

$Z = \$\,25,000 - \$8,333 = \$16,667$
$Y = \$\,\$100,000 - 0 - \$16,667 = \$83,333$

NOTE: In dealing with capital and administrative budgets, X should always be one-tenth of Y.

To test the formula, simply multiply Y (\$83,333) by the required local match (administrative expenses - 20 per cent) and check to see whether half of the local match is equal to X:

$$\$83,333 \times 20\% = \$16,667; \text{ and}$$

$$\frac{\$16,667}{2} = \$8,333$$

Note that sometimes the local share and/or the total local match must be rounded upward to accommodate the formula. It should be remembered that this formula only works when the unrestricted federal funds are in excess of one-half of the required local match. When using the formula for operation expenditures, the formula must be: $X = \frac{A - B - C}{3}$

There are cases where other values are also in excess of the allowed match. This can occur when in-kind values and local contracts are used which exceed the required local share. The portion that cannot be used as match appears as operating revenues. Under the Section 18 program, farebox revenues must be counted as operating revenues. In addition, Federal funds must be used to cover operating costs if they are shown as operating expenses of the Section 18 project. This holds true equally for funds budgeted to cover administrative or capital expenses. With this restriction (the balancing of revenues and expenditures) and the fact that there may not be enough Section 18 funds to go around, the use of this formula to minimize the use of Section 18 funds makes a lot of sense.

The formula used in the event that more than one resource exceeds the required match is presented below. This formula will work for capital or administrative expenses; operations expenses would use a denominator of 0.5.

$$\text{Net } Y = \frac{A - B - C - D}{0.8}$$

Where D is the total available local funds and inkind (local share)

and

V is the local funds and inkind used as match (local share match)

In the following example D = $20,000. All other values remain as shown in the previous example.

$$Y = \frac{\$100{,}000 - 0 - \$25{,}000 - \$20{,}000}{0.8} = \frac{\$55{,}000}{0.8} = \$68{,}750$$

$$X = \frac{68{,}750 \times 20\%}{2} = \$6{,}875$$ (or one-tenth of Y in administrative and capital budgets)

Federal Section 18 Share = $55,000

$V = X = \$6{,}875$

$Z = C - X + (D - V) = \$25{,}000 - \$6{,}875 + \$20{,}000 - \$6{,}875 = \$31{,}250$

The formula can be tested by subtracting Z and B from A to equal Y.
If Y = A - Z - B, then Y = $100,000 - $31,250 - 0 = $68,750

These formulas are of assistance only after a prospective grantee has determined what funds can be designated contracts and/or unrestricted Federal funds, in-kind values, local subsidy, etc.

CASE STUDIES

The case studies that follow provide detailed examples of how unrestricted Federal funds and other resources are used, and the procedures required by South Carolina.

CASE STUDY A

Case A is a regional system that delivers services under a family-of-services arrangement by using formula $X = \underline{A - B - C}$ and special transit fare provisions.

This case study property has used Section 18 funds for two years. Transportation service is provided in a family-of-services arrangement to a six-county service area. The family-of-services arrangement includes fixed route, subscription, demand response, and charter services to the general public and 19 separate client groups.

The expenditure budget for 1981-1982 is provided in Table 1. Table 2 presents the revenue budget for 1981-1982. The appropriate support information is given in Tables 3 and 4. These last two tables delineate, in detail, the revenue sources of the applicant and how they

are to be used. Due to the complexity and interrelatedness of Tables 2 through 4, close attention is required.

The itemization of unrestricted Federal funds in Table 3 includes Titles XIX and XX of the Social Security Act, the Older Americans Act, and CETA Title II.

The revenue budgets for capital, administration, and operations (Table 2) are analyzed below in relation to the use of unrestricted Federal funds and other contract resources.

Capital Budget - (Reference Table 2, Column A)

The capital budget is considered self-explanatory due to its relative simplicity. It should be noted, however, that the $24,000 of unrestricted Federal funds represents (as given in Table 4) the value of leased vehicles. Since the vehicles are those purchased with Federal funds, the rental or lease value equivalents cannot be used as in-kind, but rather, as unrestricted Federal funds. This $24,000, as well as the $36,000 in-kind value, is included in the $837,031 total capital expenditure.

Administrative Budget - (Reference Table 2, Column B)

The applicant has multiplied administrative expenses by 10 percent to determine exactly the maximum amount of unrestricted Federal funds that can be used as match. All other unrestricted Federal funds are left for use in the operations budget. Tables 3 and 4 will produce the exact source of the $24,870 value of unrestricted Federal funds. Based on the nature of Federal grants or contracts which can be designated unrestricted Federal funds, it is usually difficult to determine how much of the grant or contract must be applied to administrative expenses and how much to operating expenses. Therefore, in the absence of a clear direction specified in the grant or contract, the grantee is free to allocate any reasonable portion of the grant or contract funded to either the administrative or operating budget. However, it is clear that match derived from lease or rental value must be applied to capital expenses. Once again, this $24,870 value, as well as the $9,600 in-kind match value, is a component of the $248,700 total administrative expenditures.

Operations Budget - (Reference Table 2, Column C)

The applicant has used formula $X = \frac{A - B - C}{3}$ to determine how much unrestricted value can be used for match and how much must be shown as operating revenues. As is clearly evident, this applicant makes major use of unrestricted Federal funds to support operations costs. The volume of unrestricted or contract funds indicates a highly coordinated transportation system that makes excellent use of the provisions of the Section 18 program.

In looking at the proposed transportation budget revenue (Table 2), it should be noted that through the use of unrestricted Federal funds, the applicant is proposing a $1,812,344 program that requires only $123,277 in local subsidy. Much of this $123,277 is generated from contracts which purchase client use of the existing fixed-route bus system. Such contracts can be viewed as reimbursements of special transit fares, as specified in Urban Mass Transportation Administration Circular C 9051.1 of June 10, 1977.

Table 1
CASE STUDY A: PROPOSED TRANSPORTATION BUDGET EXPENDITURES

July 1, 1981 - June 30, 1982

Line No.	Categories	Proposed Budget Section 18 Project Request	Total Program This Year
	Column	A	B
	OPERATION CHARGES		
	Personnel	$ 405,750	$ 405,705
	Fringe Benefits	60,863	60,863
	Contractual Services	-0-	
	Licenses		
	Maintenance	75,000	75,000
	Fuel and Oil	175,000	175,000
	Indirect Charges (Include Utilities, etc.)		
1	TOTAL OPERATION CHARGES	$ 726,613	$ 726,613
	CAPITAL CHARGES		
	Construction	$ 444,236	$ 444,236
	Equipment	363,995	363,995
	Other Charges (Lease)	28,800	28,800
2	TOTAL CAPITAL CHARGES	$ 837,031	$ 837,031
	ADMINISTRATIVE CHARGES		
	Personnel	$ 61,600	$ 61,600
	Fringe Benefits	12,320	12,320
	Office Supplies and Equipment		INDIRECT
	Contractual Services	25,000	25,000
	Travel	5,000	5,000
	Training	2,500	2,500
	Public Relations	500	500
	Printing and Publications	1,250	1,250
	Dues and Subscription	500	500
	Insurance	30,000	30,000
	Indirect Charges Utilities, Rent, etc.	100,430	100,430
	Other	9,600	9,600
3	TOTAL ADMINISTRATIVE CHARGES	$ 248,700	$ 248,700
4	TOTAL EXPENSES	$1,812,344	$1,812,344

Table 2
CASE STUDY A: PROPOSED TRANSPORTATION
BUDGET REVENUES

July 1, 1981 - June 30, 1982

Proposed Budget for Section 18 Project

Line No.	Category	Proposed Capital and Administrative Budget: Capital	Proposed Capital and Administrative Budget: Administrative	Proposed Operations Budget 7/1/81 - 6/30/82	Total Project Request	Total Program This Year
	Column	A	B	C	D	E
	Operating Revenues					
	Fare Box			$ 37,000	$ 37,000	$ 37,000
	Other (contracts)			620,653	620,653	620,653
1	Total Operating Revenues			657,653	657,653	657,653
2	Total Expenditures	$837,031	$248,700	726,613	1,812,344	1,812,344
3	Net Operating Loss (Line 1 minus Line 2)			68,960	68,960	68,960
	Local Share					
	Local Subsidy	91,322	14,715	17,240	123,277	123,277
	In-kind Services	36,000	9,600		45,600	45,600
	Donations (cash)					
	Advertisement					
	Charter profits					
	State Funds	16,084	555		16,639	16,639
4	Total Local Share	143,406	24,870	17,240	185,516	185,516
5	Unrestricted Federal Funds	24,000	24,870	17,240	66,110	66,110
6	Other Federal Funds					
7	Total Local Match (Add lines 4, 5 & 6)	167,406	49,740	34,480	251,626	251,626
	Federal Section 18 Totals	669,625	198,960	34,480	903,065	903,065
9	Total Revenue (Add lines 1, 7 & 8)	$837,031	$248,700	$726,613	$1,812,344	$1,812,344

Table 3
CASE STUDY A: ITEMIZED AVAILABLE REVENUES

Source	Available Funds	
Fare Box	$37,000	$37,000
Subtotal		
Local Subsidy		
State	$16,639	
City		
Building Fund	52,847	
Section 147*	4,000	
Leased Van Deposits	225	
Advertising	0	
Charter	0	
Subtotal		$93,711
In-kind		
Land Donated	$36,000	
Building leases	6,000	
Utilities	3,600	
Subtotal		$45,600
Contracts		
Regional Planning Council	$109,000	
Career Awarness	2,500	
County School District #2	3,000	
County School District #4	2,250	
County School District #1	2,500	
Concerned Parents	3,600	
City of X Vocational Rehabilitation	5,400	
Munford Fuller	17,500	
Mental Health	5,400	
Vocational Rehabilitation	1,500	
Case Coordination	4,000	
X. City Dept. of Social Services	2,000	
X. City Adult Development	6,000	
Regional Center	9,000	
Subtotal		$173,650
Unrestricted Federal Funds		
Title XX	$402,920	
DOL - CETA	124,139	
State Dept. of Social Services	7,500	
SCEP Employees	8,400	
RSVP	750	
CETA - Leased Vans	24,000	
Subtotal		$585,709
TOTAL		$935,670

*Sale of junk vehicles originally purchased with Section 147 funds. (Federal-Aid Highway Act of 1973

Table 4

CASE STUDY A: REVENUE/MATCH USE

	CAPITAL			ADMINISTRATION			OPERATIONS			TOTAL
Source	Total	Match	Revenue	Total	Match	Revenue	Total	Match	Revenue	
Fares							$ 32,000	$ 0	$ 32,000	
State	$ 16,084	$ 16,084	$ 0	$ 555	$ 555	$ 0				
Local Subsidy	77,072	77,072	0							
In-kind	36,000	36,000	0	9,600	9,600	0				
Advertising										
Charter										
Contract	14,250	14,250	0	14,715	14,715	0	118,294	17,240	101,054	
Unrestricted Federal Funds	24,000*	24,000	0	24,870	24,870	0	536,839	17,240	519,599	
Total Local Match		$167,406			$49,740			$34,480		$251,626
Total Revenue			0			0			$657,653	$657,653
Total Funds	$167,406			$49,740			$692,133			$909,279

Total funds available = $935,670

Excess local subsidy = $26,391 (excess is in contract revenue)

*Value obtained from the use of CETA vans purchased with Federal funds.

CASE STUDY B

Case B is a regional system that delivers services under the family-of-services arrangement by using formulas:

$X = \frac{A - B - C}{9}$ $\quad$ $Y = \frac{A - B - C - D}{0.8}$ and $\quad$ $Y = \frac{A - B - C - D}{0.5}$

This case study applicant has received funding under the Section 18 program since November 6, 1978. Transportation services are provided to four counties by use of a consolidated system of general public and human service resources. This consolidation includes both services and funding.

Tables 5 through 9 are provided to give a detailed picture of the applicant's budgeting process. Table 5 provides more detail on certain expenditure items. The revenue budget is provided in Table 7. It is supported by information provided in Tables 8 and 9. As given in Table 8, the applicant has designated the use of Social Security Act Title XIX and XX, and CETA Title II resources for unrestricted Federal funds.

The revenue budgets for capital, administration, and operations (Table 7) are analyzed below in relation to the use of unrestricted Federal funds and other contract resources.

Capital Budget - (Reference Table 7, Column A)

As Table 9 indicates, $34,890 of unrestricted Federal funds are available to the applicant as a revenue source. As indicated at the bottom of Table 6, these funds were derived from the equivalent lease value of eight vans purchased with CETA Federal dollars. These vans are shared among the total fleet resources of the applicant. Due to the proposed small capital outlay (the limited amount of equipment actually to be purchased), the use of the formula $X = \frac{(A - B - C)}{9}$ only allows the use of $2,333 in unrestricted Federal funds match. The remaining available unrestricted Federal funds appear as $32,557 in other revenues.

Administrative Budget - (Reference Table 7, Column B)

Table 9 indicates the availability of $48,100 in unrestricted Federal funds. As Column B of Table 7 indicates, $10,175 of this total sum is used for matching purposes. The remaining $37,925 is shown in the "other revenues" category. The distribution requires the use of the formula $Y = \frac{A - B - C - D}{0.8}$ due to the availability of local funds in excess of the required local subsidy. The applicant also receives $52,725 in administration expenses from the State of South Carolina for demonstrations purposes. This amount is used as "other revenue" to bring the total to $90,650.

Operations Budget - (Reference Table 7, Column C)

Table 9 shows that the total range of resources available to the applicant is used to assist in meeting operation expenses. Of the total $313,000 available in unrestricted Federal funds, the formula $Y = \frac{A - B - C - D}{0.5}$ places $41,300 as match and $271,700 as "other revenue". In

this case, D in the formula equals the total of local contracts and state demonstration funds. Both of these sources are in excess of the required local subsidy. In addition, contracted revenues are used as local share, since they are viewed as reimbursements of special transit fares and operation revenues could be over-matched due to the calculation of the formula. Table 8 presents an itemization of local contract sources. Table 9 gives the subdivision of available local contract funds. After all available local government subsidies are used for match, the remaining shortfall, $11,300, is determined and local contract funds are used. Once this shortfall is drawn from the available local contracts, the remaining $117,125 is shown as "other revenue".

Table 5
CASE STUDY B: PROPOSED TRANSPORTATION
BUDGET EXPENDITURES

July 1, 1981 - June 30, 1982

Line No.	Categories	Proposed Budget Section 18 Project Request	Total Program This Year
	Column	A	B
	OPERATION CHARGES		
	Personnel	$ 322,600	$ 322,600
	Fringe Benefits	52,000	52,000
	Contractual Services	-0-	-0-
	Licenses	100	100
	Maintenance	156,600	156,600
	Fuel and Oil	253,000	253,000
	Indirect Charges (Include Utilities, etc.)	-0-	-0-
	Other Charges	-0-	-0-
1	TOTAL OPERATION CHARGES	$ 784,300	$ 784,300
	CAPITAL CHARGES		
	Construction	$ -0-	
	Equipment	21,000	$ 21,000
	Other Charges (Lease)	34,890	34,890
2	TOTAL CAPITAL CHARGES	$ 55,890	$ 55,890
	ADMINISTRATIVE CHARGES		
	Personnel	$ 85,700	$ 85,700
	Fringe Benefits	12,500	12,500
	Office Supplies and Equipment	6,000	6,000
	Contractual Services	6,800	6,800
	Travel	3,000	3,000
	Training	-0-	-0-
	Public Relations	1,500	1,500
	Printing and Publications	-0-	-0-
	Dues and Subscription	1,400	1,400
	Insurance	18,000	18,000
	Indirect Charges Utilities, Rent, etc.	40,000	40,000
	Other	4,000	4,000
3	TOTAL ADMINISTRATIVE CHARGES	$ 192,400	$ 192,400
4	TOTAL EXPENSES	$1,032,590	$1,032,590

Table 6
CASE STUDY B: PROPOSED TRANSPORTATION BUDGET EXPENDITURES - DETAIL

CATEGORY		EXPENDITURES	
OPERATIONS CHARGES			
Personnel			
Drivers' Salaries		$265,100	
Overtime		30,000	
Dispatchers' Salaries		27,500	
	Subtotal		$233,600
Maintenance			
Wages		$ 61,200	
Fringe		10,400	
Tires & Tubes		27,000	
Maintenance Materials		50,000	
Contract maintenance		8,000	
	Subtotal		$156,600
ADMINISTRATIVE CHARGES			
Contractual Services			
Professional Service		$ 4,000	
Computer Maintenance		2,800	
	Subtotal		$6,800
Indirect Charges			
Utilities		$ 26,000	
Rent		6,000	
	Subtotal		$32,000
Other Charges			
Unclassified Supplies		$ 3,000	
Miscellaneous Repairs		1,000	
	Subtotal		$4,000
Capital Charges			
Equipment			
15 radios @ 1,400 each (installed with first year's warranty)		$ 21,000	
Other Charges			
lease of 8 CETA vans $363.44/month x 8 vans x 12 months (same cost and methodology as used for previous year)		$ 34,890	
	Subtotal		$55,890

Table 7
CASE STUDY B: PROPOSED TRANSPORTATION BUDGET REVENUES

July 1, 1981 - June 30, 1982

Line No.	Category	Proposed Budget for Section 18 Project: Proposed Capital and Administrative Budget: Capital	Administrative	Proposed Operations Budget 7/1/81 - 6/30/82	Total Project Request	Total Program This Year
	Column	A	B	C	D	E
	Operating Revenues					
	Fare Box			$ 88,000	$ 88,000	$ 88,000
	Other (Contracts)	$ 32,557	$ 90,650	531,000	654,307	654,307
1	Total Operating Revenues	$ 32,557	$ 90,650	$619,100	$ 742,307	$ 742,307
2	Total Expenditures	$ 55,890	$192,400	$784,300	$1,032,590	$1,032,590
3	Net Operating Loss (Line 1 minus Line 2)	$ 23,333	$101,750	$165,200	$ 290,283	$ 290,283
	Local Share					
	Local Subsidy		$ 5,000	$ 30,000	$ 35,000	$ 35,000
	Local Contracts		5,175	11,300	16,475	16,475
	Donations (cash)					
	Advertisement					
	Charter profits					
	State Funds	$ 2,334			2,334	2,334
4	Total Local Share	$ 2,334	$ 10,175	$ 41,300	$ 53,809	$ 53,809
5	Unrestricted Federal Funds	$ 2,334	$ 10,175	$ 41,300	$ 53,809	$ 53,808
6	Other Federal Funds	-0-	-0-	-0-	-0-	-0-
7	Total Local Match (Add lines 4, 5 & 6)	$ 4,667	$ 20,350	$ 82,600	$ 107,617	$ 107,617
	Federal Section 18 Funds	$ 18,666	$ 81,400	$ 82,600	$ 182,666	$ 182,666
9	Total Revenue (Add lines 1, 7 & 8)	$ 55,890	$192,400	$784,300	$1,032,590	$1,032,590

Table 8

CASE STUDY B: ITEMIZED AVAILABLE REVENUES

Source	Available Funds	
Fare Box	$ 88,000	
Subtotal		$ 88,000
Local Subsidy		
State Pilot Project	$200,000	
City W	35,000	
Advertising	0	
Charter	0	
Subtotal		$235,000
In-kind	$ 0	$ 0
Contracts		
X County Development Center	$ 26,400	
Y County Comprehensive Services	30,000	
Z County Activity Center	19,700	
W Developmental learning Center	43,700	
Z Council on Aging	13,800	
Subtotal		$133,600
Unrestricted Federal Funds		
X County Day Care - Title XX	$ 18,200	
Private Day Care - Title XX	24,000	
Y Council on Aging - Title XX	14,000	
W Council on Aging - Title XX	33,400	
Vocational Rehabilitation	20,700	
DSS - Title XIX	170,000	
CETA - Title II	30,800	
CETA - Title VI	50,000	
CETA - Title II	34,890	
Subtotal		$395,990
TOTAL		$852,590

Table 9

CASE STUDY B: REVENUE/MATCH USE

Source	CAPITAL Total	CAPITAL Match	CAPITAL Revenue	ADMINISTRATION Total	ADMINISTRATION Match	ADMINISTRATION Revenue	OPERATIONS Total	OPERATIONS Match	OPERATIONS Revenue	TOTAL
Fares							$ 88,000	$ 0	$ 88,000	
State	$ 2,334	$ 2,334	$ 0	$52,725	$ 0	$52,725	142,275	0	142,275	
Local Subsidy	30,000	30,000	0	5,000	5,000	0				
In-kind	0			0			0			
Advertising	0			0			0			
Charter	0			0			0			
Contract	0			5,175	5,175	0	128,425	11,300	177,125	
Unrestricted Federal Funds	34,890*	2,333	32,557	48,100	10,175	37,925	313,000	41,300	271,700	
Total Local Match		$ 34,667			$20,350			$52,600		$107,617
Total Revenue			$32,557			$90,650			$619,100	$742,307
Total Funds	$ 67,224			$111,000			$671,700			$849,924

Total funds available = $852,590

Excess local subsidy = $2,666 (excess is in State pilot funds)

*Lease value of CETA vehicles.

SUMMARY OF IMPLEMENTATION

The first two years of dealing with the Section 18 unrestricted share provision has yielded the following conclusions:

A. The process for using the provision is not simple;

B. The process requires a well designed system to account for the use of Federal funds, and a well trained state staff to provide technical assistance;

C. The complexity required to account for the use of unrestricted Federal share places a burden on applicants during the application phase, the grant phase (invoicing and bookkeeping), and post grant phase (auditing);

D. The concept makes efficient use of available funds and allows for the initiation of projects which otherwise would most likely never have begun; and,

E. The concept supports and justifies the coordination and/or consolidation of public transportation programs at the local level.

To summarize, South Carolina feels that its position of allowing total flexibility in the use of the unrestricted Federal funds provision has been, and still is, well justified. This provision has had a major impact on the initiation of new systems and the coordination of existing systems in South Carolina. It is speculated that with the advent of reduced Federal funding, this provision will take on even greater importance.

States which at the present time heavily support public transportation capital and operating programs may be reassessing current funding ratios and criteria, and seeking more effective utilization of diminishing financial resources during this period of economic "belt-tightening." Of course, rural and small urban systems in states such as Alabama, Colorado, Idaho, Kansas, Mississippi, New hampshire, New Mexico, North Dakota, Oklahoma, South Dakota, Vermont; and Wyoming; which do not administer state funded operating and capital assistance programs; would immediately benefit from the maximum utilization of the unrestricted Federal share provision.

APPENDIX I

THE LIST OF FEDERAL FUNDS THAT CAN BE USED FOR LOCAL MATCH FOR SECTION 18 PROJECTS

Federal Agencies Included in the List

Appalachian Regional Commission (ARC)

Community Services Administration (CSA)

Department of Agriculture

Department of Interior
- Bureau of Indian Affairs

Department of Labor
- Comprehensive Employment and Training Programs (CETA)
- Job Corps
- Work Incentive Program (WIN)

Department of Transportation
- Federal Highway Administration
- Urban Mass Transportation Administration

Department of Health, Education and Welfare
- Office of Education
- Office of Human Development
- Public Health Service
- Social and Rehabilitation Service

Federal Funds That Can or Can Not be Used for the Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
	Foster Grandparents	72.001	No	Yes	Funds must be used to support the volunteers.
	Retired Senior Volunteer Program (RSVP)	72.002	No	Yes	
	Volunteers in Service to America (VISTA)	72.003	No	Yes	The volunteer's time can be computed on the basis of the minimum wage or the local rate for a service, whichever is higher.
	Senior Companion Program (SCP)	72.008	No	Yes	
	Mini-Grants	72.010	No	Yes	

Federal Funds That May Be Used for Section 18 Local Share

Agency	Program Title	Local Cash Share	Federal Soft Share	Comments
ARC	Sec. 214 Supplements to Federal grant-in-aid programs.	Can be used in lieu of portion of local share.	Can be used in lieu of portion of local share.	Sec. 214 permits use of ARC funds to raise Federal share up to a maximum of 80% total Federal assistance.
ARC	Sec. 301 Appalachian State Research, Technical Assistance and Demonstration Projects	Can be used in lieu of all of local share.	Can be used in lieu of all of local share.	Sec. 302 permits combining of UMTA and ARC funds to provide up to 100% of project costs without regard to limitation on Federal funding in Sec. 18.

Federal Funds That Can or Can Not Be Used for the Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Community Services Administration (CSA)	Community Action Section 221 Funds	49.002	No	Yes	Community Action Agencies (CAA) planning to use 221 funds for local match must demonstrate that the transportation services will focus on the transportation needs of the low income people is the area served, as well as meeting Section 18 requirements. The monies used to meet CSA's local 20% match for 221 funds cannot be the same funds used to meet the 50% or 10% local match required by Section 18.
	Community Food and Nutrition	49.005	No	No	
	Senior Opportunities and Services	49.010	No	No	
	State Economic Opportunity Services	49.013	No	No	

Federal Funds That Can or Can Not be Used for the Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Department of Agriculture	Community Facility Loans	----	Yes	No	Can only be used for capital expenditures.
	Business and Industry Loans	----	Yes	No	Can be used for both capital and operating expenditures.

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Department of Health, Human Services Education and Welfare					
Office of Education-Bureau of Occupational and Adult Education	Adult Education - Grants to States	13.400	No	Yes	Only the Federal portion of the HHS program funds can be used to meet the matching requirements of Section 18 funds. Thus any local funds used to secure HHS funds, cannot be used as part of the HHS funds matching Section 18 funds.
	Vocational Education - Basic Grants to States	13.493	"	"	In addition any local funds used to meet the matching requirements of DOT programs may not be used to meet matching requirements of HHS programs.
	Vocational Education Cooperative Education	13.495	"	"	
	Vocational Education Research	13.498	"	"	
Center for Adult Vocational-Technical and Manpower Education	Vocational Education - Special Needs				

Federal Funds That Can or Can Not be Used for this Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Department of Interior, Bureau of Indian Affairs	Indian Employment	15.108	No	No	
	Indian Education - Dormitory Operations	15.109	No	No	
	Indian Education - Federal Schools	15.110	No	No	
	Indian Education - Assistance to Schools	15.130	No	No	

Federal Funds That Can or Can Not be Used for this Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Department of Labor	Apprenticeship Outreach	17.200	No	Yes	The following comments pertain to Programs 17.200, 17.228, 17.230, 17.232, 17.233, 17.234 and 17.235.
	National On-the-Job Training	17.228	No	Yes	The use of these funds can be used to support the people who are working in the Section 18 program (ie. the salaries of CETA drivers or dispatchers).
	Farm Workers	17.230	No	Yes	
	Comprehensive Employment and Training Programs (CETA)	17.232	No	Yes	The funds can also be used to pay for supportive transportation services for training and employment.
	Employment and Training Research and Development Projects	17.233	No	Yes	
	Indian Employment and Training programs	17.234	No	Yes	
	Senior Community Service Employment Program (Title IX)	17.235	No	Yes	

Federal Funds That Can or Can Not be Used for this Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Department of Labor (cont'd.)	Employment Service	17.207	No	Yes	
	Job Corps	17.211	No	Yes	
	Work Incentive Program (WIN)	17.226	No	Yes	WIN funds can only be used where there is a verified need for WIN clients.

Federal Funds That Can or Can Not be Used for this Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Department of Transportation	Capital Improvement Grants	20.500	No	No	
	Capital Improvement Loans	20.501	No	No	
Urban Mass Transportation Administration	Urban Mass Transportation Grants	20.506	No	No	
	Urban Mass Transportation Capital and Operating Assistance Formula Grants - Section 5 Grants	20.507	No	No	
	Capital Assistance to Private Non-Profit Organizations - Section 16(b)(2)	Not Assigned	No	No	
	Interstate Transfer Grants	Not Assigned	No	No	
	Urban Systems Grants	Not Assigned	No	No	

Federal Funds That Can or Can Not be Used for the Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share Yes/No	COMMENTS
Department of Transportation Federal Highway Administration	Rural Highway Public Transportation Demonstration Program (Section 147 Program)	Not Assigned	Yes	Yes	Funds obligated to Section 1 47 projects but not yet expended are considered to be "unrestricted funds" in the transition to a Section 18 project. However, there are two constraints on using 147 funds as local cash. The 147 project and the Section 18 project must be operating jointly. Secondly, the use of 147 and Section 18 funds can never be used to pay for identical costs.
	Carpool Demonstration Projects	Not	No	No	
	Federal Highway Act all Title 23 programs		No	No	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Office of Education-Bureau of Occupation and Adult Technical Education	Vocational Education - Innovation	13.502	No	Yes	
Office of Education - Bureau of Education for the Handicapped	Educationally Deprived Children-Handicapped	13.427	"	"	
	Handicapped Early Childhood Assistance	13.444	"	"	
	Handicapped Innovative Programs - Deaf-Blind Centers	13.445	"	"	
	Handicapped Preschool and School Programs	13.449	"	"	
	Handicapped Innovative Programs - Programs for Severely Handicapped Children	13.568			

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Office of Education - Bureau of Postsecondary Education	Upward Bound	13.492	No	Yes	
Office of Education - Office of Indian Education	Indian Education - Grants to Local Educational Agencies	13.534	"	"	
	Indian Education - Special Programs and Projects	13.535	"	"	
	Indian Education - Adult Indian Education	13.536	"	"	
	Indian Education Grants to Non Local Educational Agencies	13.551	"	"	
Office of Education - Office of Career Education	Career Education	13.554	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Office of Education - Bureau of School Systems	Educationally Deprived Children - Local Educational Agencies	13.428	No	Yes	
	Educationally Deprived Children - Migrants	13.429	"	"	
	Educationally Deprived Children in State Administered Institutions Serving Neglected or Delinquent Children	13.431	"	"	
	Follow-Through	13.433	"	"	
	Educationally Deprived Children - Special Incentive Grants	13.512	"	"	
Office of Education - Bureau of Postsecondary Education	Special Services for Disadvantaged Students	13.482	"	"	
	Talent Search	13.488	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Office of Human Development	Child Development - Head Start	13,600	No	Yes	
	Native American Programs	13.612	"	"	
	Runaway Youth	13.623	"	"	
	Rehabilitation Services and Facilities - Basic Support Program	13.624	"	"	
	Vocational Rehabilitation Services for Social Security Disability Beneficiaries	13.625	"	"	
	Supplemental Security - Vocational Rehabilitation Program	Not Assigned	"	"	
	Developmental Disabilities - Basic Support	13.630	"	"	
	Developmental Disabilities Special Projects	13.631	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Office of Human Development - Continued	Developmental Disabilities Demonstration Facilities and Training (University Affiliated Facilities)	13.632	No	Yes	
	Special Programs for The Aging - State Agencies Activities and Area Planning and Social Service Programs (Title III)	13.633	"	"	
	Special Programs for The Aging - Title III, Section 300 (Model Projects on Aging	13.634	"	"	
	Special Programs for The Aging - Nutrition Programs for the Elderly (Title VII)	13.635	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Public Health Service - Alcohol, Drug Abuse and Mental Health Administration	Drug Abuse Community Service Program	13.235	No	Yes	
	Mental Health Hospital Improvement Grants	13.237	"	"	
	Narcotic Addict Rehabilitation Act Contracts	13.239	"	"	
	Community Mental Health Centers - Staffing and Construction	13.240	"	"	
	Alcohol Demonstration Programs	13.252	"	"	
	Alcohol Formula Grants	13.257	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Public Health Service - Alcohol, Drug Abuse and Mental Health Administration - Continued	Mental Health - Children's Services	13.259	No	Yes	
	Drug Abuse Prevention Formula Grants	13.269	"	"	
	Special Alcohol Projects	13.290	"	"	
	Community Mental Health Centers Comprehensive Services Support	13.295	"	"	
Public Health Services - Center for Disease Control	Childhood Lead Based Paint Poisoning Control	13.266	"	"	
	Disease Control - Project Grants	13.268	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Social and Rehabilitation Service	Child Welfare Services (Title IV-B)	13.707	No	Yes	
	Medical Assistance Program - Medicaid (Title XIX)	13.714	"	"	
	Work Incentives Program Child Care - Employment Related Supportive Services	13.748	"	"	
	Public Assistance Social Services	13.754	"	"	
	Public Assistance - Maintenance Assistance (State Aid)	13.761	"	"	
	Social Services for Low Income and Public Assistance Recipients (Title XX)	13.771	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Social and Rehabilitation Services - Continued	Refugee Assistance-Cuban Refugees	13.762	No	Yes	
	Special Assistance to Refugees from Cambodia and Vietnam in the United States	13.769	"	"	

Source: GAO Report, CED 77-119,

Federal Funds That May Be Used for Section 18 Local Share

AGENCY	PROGRAM TITLE	Catalog of Federal Domestic Assistance I.D. #	Local Cash Share Yes/No	Federal Soft Share** Yes/No	COMMENTS
Public Health Service - Health Services Administration	Comprehensive Public Health Services Formula Grants	13.210	No	Yes	
	Crippled Children's Services	13.211	"	"	
	Family Planning Project	13.217	"	"	
	Community Health Ctr.	13.24	"	"	
	Indian Health Services	13.228	"	"	
	Maternal and Child Health Services	13.232	"	"	
	Migrant Health Grants	13.246	"	"	
	Emergency Medical Servs.	13.284	"	"	
	Cancer Support Centers	13.397	'	"	
Public Health Service - National Institutes of Health					

APPENDIX II

DERIVATION OF SECTION 18
UNRESTRICTED FEDERAL FUNDS FORMULAS

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DERIVATION OF SECTION 18 FORMULAS

DEFINITION OF TERMS:

A = gross expenditure

Y = net expenditure

B = farebox revenue

C = total available unrestricted Federal funds

Z = unrestricted Federal funds as revenue

X = unrestricted Federal funds as match

D = total available local funds and inkind

S = local funds and inkind as revenue

*T = local funds and inkind as match

*NOTE: For the purposes of correlation with the preceding paper, T = V in the calculations included herein.

EXAMPLE I - For use where there are excess unrestricted Federal funds.

The objective in Example I is to determine the amount of unrestricted Federal funds to use as one-half of the matching revenue so as to minimize the total local contribution. This approach also minimizes the Section 18 contribution by reducing the net cost through maximum use of excess unrestricted Federal funds as revenue.

For Administrative & Capital at the 80/20 matching ratio

Section 18 Funds + Match = Net Expenditure

$$.8Y + .2Y = Y$$

Under current rules one-half of the required match can be from unrestricted Federal funds (X)

that is: $X = \frac{.2Y}{2} = .1Y$

$$\begin{aligned} \text{if } X &= .1Y \\ \text{then } 2X &= .2Y \\ \text{and } 8X &= .8Y \end{aligned}$$

substituting these values

$$8X + 2X = Y$$

Net expenditures are calculated by subtracting available revenues from the gross expenditure

that is: $Y + A - B - Z$

From the definition of terms it is known that $Z = C - X$

so: $Y = A - B - C + X$

substituting these values

$$8X + 2X = A - B - C + X$$
$$9X = A - B - C$$

$$X = \frac{A - B - C}{9} =$$ amount of unrestricted Federal funds to use as match for administrative and capital projects.

<u>For Operating Assistance</u> at the 50/50 matching ratio

Using the same approach

Section 18 Funds + Match Funds = Net Expenditures

$$.5Y + .5Y = Y$$

in this case $X = \frac{.5Y}{2} = .25Y$

if $X = .25Y$, then $2X = .5Y$

so: $2X + 2X = Y$

$$Y = A - B - Z$$

$$Z = C - X$$

so: $2X + 2X = A - B - C + X$
$3X \quad A - B - C$

$$X = \frac{A - B - C}{3} =$$ amount of unrestricted Federal funds to use as match for operating assistance projects

<u>EXAMPLE II</u> - For use where there are excess unrestricted Federal funds and excess local sources (more than needed for match). An excess of both must be present:

The objective in Example II is to determine the proper split of unrestricted Federal funds and local contributions between that which should be used as a revenue and that which should be used as match so as to minimize the matching requirement and the need for Section 18 funds. This equation solves for the net.

For Administrative & Capital at the 80/20 matching ratio

Section 18 Funds + Match Fund = Net

$.8Y + .2Y = Y$

Under current rules one-half of the required match can be from unrestricted Federal funds (X)

that is: $X = \frac{.2Y}{2} = .1Y$

It is also known that $X + T = .2Y$
and that $X = T = .1Y$

Section 18 + Match = Net

$.8Y + .2Y = Y$

Net expenditures are calculated by subtracting available revenues from the gross expenditure

that is: $Y = A - B - Z - S$

From the definitions

it is known that $S = D - T$

and that $Z = C - X$

Making these substitutions

$.8Y + .2Y = Y = A - B - C + X - D + T$

Note $X = T = .1Y$

So: $Y = A - B - C + .1Y - D + .1Y$

$.8Y = A - B - C - D$

$Y = \frac{A - B - C - D}{.8}$

Once the net expenditure is known the Sec. 18 share and required match can be determined by applying the matching ratio 8/20

$$\text{Section 18} = .8Y \qquad \frac{.2Y}{2} = .1Y = X \text{ (unrestricted)}$$

$$\text{Match} = .2Y \qquad \frac{.2Y}{2} = .1Y = T \text{ (local)}$$

$$\text{Also } Z = C - X$$

$$S = D - T$$

<u>For Operating Assistance</u> at the 50/50 ratio

using the same basic approach

$$\text{Section 18} + \text{Match} = \text{Net} = \text{Gross} - \text{Revenue}$$

$$.5Y + .5Y = Y = A - B - Z - S$$

$$X = \frac{.5Y}{2} = .25Y \qquad Z = C - X$$

$$S = D - T$$

$$X + T = .5Y$$

$$X + T = .25Y$$

Solving the equation for Y

$$Y = A - B - C + X - D + T$$

$$Y = A - B - C + .25Y - D + .25Y$$

$$.5Y = A - B - C - D$$

$$Y = \frac{A - B - C - D}{.5}$$

If one wished to make a direct calculation of the amount of unrestricted Federal funds to use as match in Example II as opposed to a calculation of the net, one would substitute X's for Y's in the derivation process, as follows:

<u>For Administration & Capital</u> (Note $.1Y = X$)

$$.8Y + .2Y = A - B - C + .1Y - D + .1Y$$

$$8X + 2X = A - B - C + X - D + X$$

$$8X = A - B - D - D$$

$$X = \frac{A - B - C - D}{8}$$

For Operating (Note $.25Y = X$)

$$.5Y + 5Y = A - B - C + .25Y - D + .25Y$$

$$2X + 2X = A - B - C + X - D + X$$

$$2X = A - B - C - D$$

$$X = \frac{A - B - C - D}{2}$$

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